Annual report to contract holders for the twelve months ended December 31, 2007

ANNUAL REPORT

FOR CONTRACT HOLDERS OF SCUDDER DESTINATIONS℠

AIM Variable Insurance Funds

The Alger American Fund

Credit Suisse Trust

Dreyfus Investment Portfolios

The Dreyfus Socially Responsible Growth Fund, Inc.

DWS Investments VIT Funds

DWS Variable Series I

DWS Variable Series II

SECTOR EQUITY

Sectors

AIM V.I. Utilities Fund

Annual Report to Shareholders ▪ December 31, 2007

AIM V.I. UTILITIES FUND's investment objectives are capital growth and income.

Unless otherwise stated, information presented in this report is as of December 31, 2007, and is based on total net assets.

Unless otherwise noted, all data in this report are from A I M Management Group Inc.

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

Not FDIC insured	May lose value	No bank guarantee

A I M Distributors, Inc.

The Fund provides a complete list of its holdings four times in each fiscal year, at the quarter-ends. For the second and fourth quarters, the lists appear in the Fund's semiannual and annual reports to shareholders. For the first and third quarters, the Fund files the lists with the Securities and Exchange Commission (SEC) on Form N-Q. The Fund's Form N-Q filings are available on the SEC Web site, sec.gov. Copies of the Fund's Forms N-Q may be reviewed and copied at the SEC Public Reference Room in Washington, D.C.You can obtain information on the operation of the Public Reference Room, including information about duplicating fee charges, by calling 202-942-8090 or 800-732-0330, or by electronic request at the following E-mail address: publicinfo@sec.gov. The SEC file numbers for the Fund are 811-07452 and 033-57340. The Fund's most recent portfolio holdings, as filed on Form N-Q, have also been made available to insurance companies issuing variable annuity contracts and variable life insurance policies ("variable products") that invest in the Fund.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge, upon request, from our Client Services department at 800-410-4246 or on the AIM Web site, AIMinvestments.com. On the home page, scroll down and click on Proxy Policy. The information is also available on the SEC Web site, sec.gov.

Information regarding how the Fund voted proxies related to its portfolio securities during the 12 months ended June 30, 2007, is available at our Web site. Go to AIMinvestments.com, access the About Us tab, click on Required Notices and then click on Proxy Voting Activity. Next, select the Fund from the drop-down menu. The information is also available on the SEC Web site, sec.gov.

AIM® INVESTMENTS

Management's discussion of Fund performance

Performance Summary

Investor preference for large dividend-paying equities boosted the performance of many utilities stocks during the year ended December 31, 2007. This helped AIM V.I. Utilities Fund post positive returns for the year. The Fund outperformed its broad market index, the S&P 500 Index, as the utilities sector was among the strongest performing sectors during the year.▼ Utilities stocks benefited from an increase in merger and acquisition activity, as well as investor preference for their generally more defensive character and their tendency to pay dividends.

Your Fund's long-term performance appears later in this report.

Fund vs. Indexes

Total returns, 12/31/06–12/31/07, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	20.64%
Series II Shares	20.32
S&P 500 Index▼ (Broad Market Index)	5.49
Lipper VUF Utility Funds Category Average▼ (Peer Group)	22.97
Lipper Utility Funds Index▼ (Former Peer Group Index)	17.20

Source: ▼Lipper Inc.

How we invest

We invest primarily in natural gas, electricity and telecommunication services companies, selecting stocks based on our quantitative and fundamental analysis of individual companies. Our quantitative analysis focuses on positive cash flows and predictable earnings. Our fundamental analysis seeks strong balance sheets, competent management and sustainable dividends and distributions.

We look for companies that could potentially benefit from industry trends, such as increased demand for certain products and deregulation of state markets and that are attractively valued relative to the rest of the market. We also monitor and may adjust industry and position weights according to prevailing economic trends such as gross domestic product growth and interest rate changes.

Portfolio Composition

By industry

Electric Utilities	37.2%
Multi-Utilities	22.0
Integrated Telecommunication Services	12.2
Oil & Gas Storage & Transportation	10.0
Gas Utilities	8.9
Independent Power Producers & Energy Traders	6.1
Wireless Telecommunication Services	0.9
Money Market Funds Plus Other Assets Less Liabilities	2.7

Top 10 Equity Holdings*

1. AT&T Inc.	5.6%
2. Exelon Corp.	4.8
3. Entergy Corp.	4.5
4. FPL Group, Inc.	4.1
5. Williams Cos., Inc. (The)	4.1
6. NRG Energy, Inc.	3.8
7. Edison International	3.7
8. Questar Corp.	3.6
9. Verizon Communications Inc.	3.6
10. Sempra Energy	3.6

Total Net Assets	$159.04 million
Total Number of Holdings*	34

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

We seek to control risk by:

- Diversifying across most industries and sub-industries within the utilities sector.
- Owning both regulated and unregulated utilities—unregulated companies provide greater growth potential, while regulated firms provide more stable dividends and principal.
- Generally avoiding excessive concentration of assets in a small number of stocks.
- Maintaining a reasonable cash position to avoid having to sell stocks during market downturns.

We may sell a stock for any of the following reasons:

- Earnings growth is threatened because of deterioration in the firm's fundamentals or change in the operating environment.
- Valuation becomes too high.
- Corporate strategy changes.

Market conditions and your Fund

The year was characterized by extremes. Subprime loan concerns, record high crude oil prices, a weak housing market and a weak U.S. dollar increased fears of recession and worries about a potentially negative effect on consumer spending. These factors affected investor sentiment which caused market volatility to increase during the year. Yet, despite concerns over a slowing economy, several major market indexes ended the year in positive territory after setting all-time closing highs during the year.[1] Strong global growth, steady corporate earnings and continued merger and acquisition activity drove equity markets higher for much of 2007.[1] Against this backdrop, energy, materials and utilities were among the best performing sectors of the S&P 500 Index.[1] Conversely, financials, consumer discretionary and health care were the weakest performing sectors.[1]

Investor preference for utilities stocks, based on their generally more defensive character and tendency to pay dividends, increased during the year, bolstered by evidence of a slowing economy and lower interest rates. During the year, the U.S. Federal Reserve Board (the Fed) lowered the federal funds target rate from 5.25% to 4.25%[2] in three separate actions. Utilities stocks tend to be sensitive to interest rate movements because they generally pay dividends and are particularly attractive when interest rates are low.

An increase in merger and acquisition activity, particularly in the diversified telecommunication services and independent power producers industries, also helped stocks in the utilities sector. For the year, our holdings in electric utilities, independent power producers and integrated telecommunication services had the most positive impact on Fund performance. Wireless telecommunication services stocks, on the other hand, detracted from Fund performance.

Top contributors to Fund performance during the year included **NRG Energy**, **Exelon** and **Entergy**. Each company benefited in its own right from increased interest in nuclear power plants, as nuclear power produces no carbon dioxide emissions. NRG Energy recently announced plans to build more nuclear power plants in Texas and Exelon is the largest domestic nuclear power generator. Entergy was the first domestic utility to voluntarily reduce greenhouse gas emissions and has benefited from its purchase of carbon credits.

Detractors from Fund performance were minimal during the year. Top detractors included multi-utility providers **CMS Energy** and **PG&E**. CMS Energy experienced regulatory difficulties during the year. PG&E was affected by possibly unjustified negative investor perception of the adverse conditions in the California housing market. We continued to own both stocks at the close of 2007.

The reduced federal income tax rate for qualified dividends made utilities stocks attractive to many investors over the last several years. We remain modestly concerned about the possible repeal of the dividend tax rate reduction, however. Interest rate and inflationary trends also present a cause for concern.

Because carbon dioxide emissions remain a popular topic with legislators, we increased the Fund's exposure to natural gas and nuclear power companies. Natural gas has one-third the carbon dioxide emissions of coal. Nuclear power generation, although controversial, produces no greenhouse gas emissions. We continued to maintain our focus on holding what we believed were favorably priced stocks of strong companies with reasonable growth prospects and attractive dividend yields.

The Fund has experienced strong double-digit average annual total returns over the last five years. It would be imprudent for us to suggest such a level of performance is sustainable over the long term. As always, we thank you for your continued investment and welcome any new investors to AIM V.I. Utilities Fund.

Sources: [1]Lipper Inc.; [2]U.S. Federal Reserve Board

The views and opinions expressed in management's discussion of Fund performance are those of A I M 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 A I M 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.

John S. Segner

Senior portfolio manager, is lead manager of AIM V.I. Utilities Fund. He has more than 20 years of experience in the energy and investment industries. Before joining the Fund's advisor in 1997, he was a managing director and principal with an investment management company that focused exclusively on publicly-traded energy stocks. Prior to that, he held positions with several energy companies. Mr. Segner earned a B.S. in civil engineering from the University of Alabama and an M.B.A. with a concentration in finance from The University of Texas at Austin.

Assisted by the Energy/Gold/Utilities Team

For a discussion of the risks of investing in your Fund, indexes used in this report and your Fund's long-term performance, please turn the page.

Your Fund's long-term performance

Average Annual Total Returns

As of 12/31/07

Series I Shares	
Inception (12/30/94)	9.62%
10 Years	8.08
5 Years	20.75
1 Year	20.64

Series II Shares	
10 Years	7.82%
5 Years	20.46
1 Year	20.32

Series II shares' inception date is April 30, 2004. Returns since that date are historical. All other returns are the blended returns of the historical performance of Series II shares since their inception and the restated historical performance of Series I shares (for periods prior to inception of Series II shares) adjusted to reflect the Rule 12b-1 fees applicable to Series II shares. The inception date of Series I shares is December 30, 1994.

The performance of the Fund's Series I and Series II share classes will differ primarily due to different class expenses.

The performance data quoted represent past performance and cannot guarantee comparable future results; current performance may be lower or higher. Please contact your variable product issuer or financial 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.

The net annual Fund operating expense ratio set forth in the most recent Fund prospectus as of the date of this report for Series I and Series II shares was 0.93% and 1.18%, respectively.[1] The total annual Fund operating expense ratio set forth in the most recent Fund prospectus as of the date of this report for Series I and Series II shares was 0.96% and 1.21%, respectively. The expense ratios presented above may vary from the expense ratios presented in other sections of this report that are based on expenses incurred during the period covered by this report.

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.

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 advisor.

[1]Total annual operating expenses less any contractual fee waivers and/or expense reimbursements by the advisor in effect through at least April 30, 2009. See current prospectus for more information.

Principal risks of investing in the Fund

Since a large percentage of the Fund's assets may be invested in securities of a limited number of companies, each investment has a greater effect on the Fund's overall performance, and any change in the value of those securities could significantly affect the value of your investment in the Fund.

Investing in developing countries can add additional risk, such as high rates of inflation or sharply devalued currencies against the U.S. dollar. Transaction costs are often higher, and there may be delays in settlement procedures.

Prices of equity securities change in response to many factors including the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

Foreign securities have additional risks, including exchange rate changes, political and economic upheaval, the relative lack of information, relatively low market liquidity, and the potential lack of strict financial and accounting controls and standards.

There is no guarantee that the investment techniques and risk analyses used by the Fund's portfolio managers will produce the desired results.

The prices of securities held by the Fund may decline in response to market risks.

The Fund's investments are concentrated in a comparatively narrow segment of the economy. Consequently, the Fund may tend to be more volatile than other mutual funds, and the value of the Fund's investments may tend to rise and fall more rapidly.

Government regulation, difficulties in obtaining adequate financing and investment return, environmental issues, prices of fuel for generation of electricity, availability of natural gas, risks associated with power marketing and trading, and risks associated with nuclear power facilities may adversely affect the market value of the Fund's holdings.

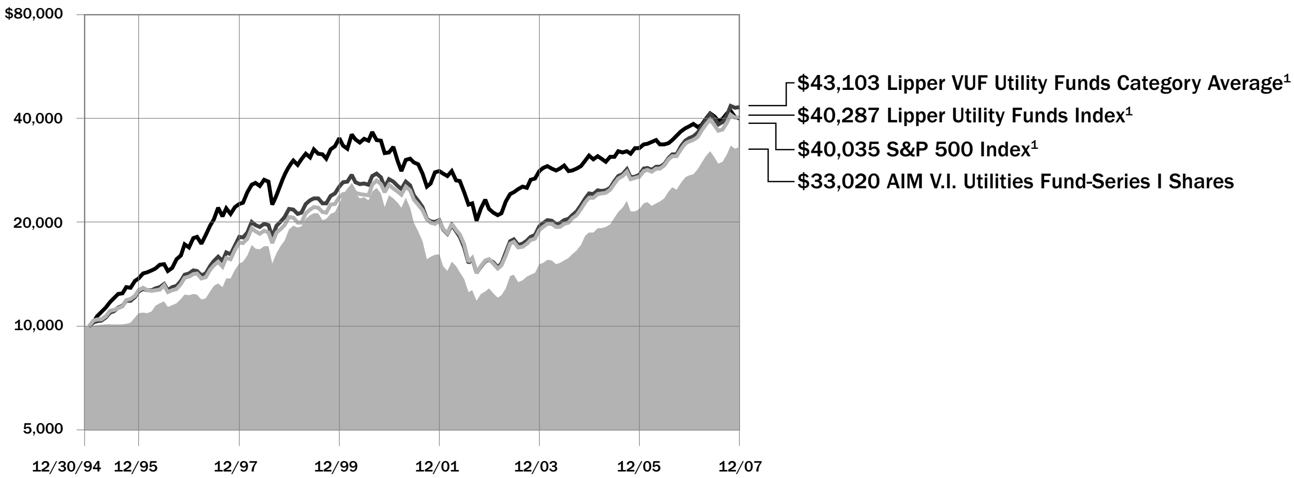
About indexes used in this report

The **S&P 500® Index** is a market capitalization-weighted index covering all major areas of the U.S. economy. It is not the 500 largest companies, but rather the most widely held

Continued

Results of a $10,000 Investment

Fund data from 12/30/94, index data from 12/31/94



Source: [1]Lipper Inc.

Past performance cannot guarantee comparable future results.

This chart, which is a logarithmic chart, presents the fluctuations in the value of the Fund and its indexes. We believe that a logarithmic chart is more effective than other types of charts in illustrating changes in value during the early years shown in the chart. The vertical axis, the one that indicates the dollar value of an investment, is constructed with each segment representing a percent change in the value of the investment. In this chart, each segment represents a doubling, or 100% change, in the value of the investment. In other words, the space between $5,000 and $10,000 is the same size as the space between $10,000 and $20,000, and so on.

Continued from previous page

500 companies chosen with respect to market size, liquidity, and their industry.

The Fund has elected to use the **Lipper Variable Underlying Funds (VUF) Utility Funds Category Average** as its peer group instead of the Lipper Utility Funds Index. In 2006, Lipper began publishing VUF indexes, allowing the Fund to be compared with the Lipper VUF Utility Funds Category Average. The unmanaged Lipper VUF Utility Funds Category Average represents the average of all the variable insurance underlying Utility Funds tracked by Lipper Inc. These funds invest primarily in the equity securities of domestic and foreign companies providing utilities.

The **Lipper Utility Funds Index** is an equally weighted representation of the largest funds in the Lipper Utility Funds category. These funds invest primarily in the equity securities of domestic and foreign companies providing utilities.

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. Additionally, the returns and net asset values shown throughout this report are at the Fund level only and do not include variable product issuer charges. If such charges were included, the total returns would be lower.

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.

Schedule of Investments[a]

December 31, 2007

	Shares	Value
Common Stocks–97.34%		
Electric Utilities–37.20%		
Duke Energy Corp.	285,000	$ 5,748,450
E.ON A.G. (Germany)[b]	24,000	5,086,409
Edison International	109,000	5,817,330
Enel S.p.A. (Italy)[b]	189,000	2,226,659
Entergy Corp.	60,000	7,171,200
Exelon Corp.	94,000	7,674,160
FirstEnergy Corp.	68,000	4,919,120
FPL Group, Inc.	96,000	6,506,880
Pepco Holdings, Inc.	135,000	3,959,550
Portland General Electric Co.	89,000	2,472,420
PPL Corp.	106,000	5,521,540
Southern Co.	53,000	2,053,750
		59,157,468
Gas Utilities–8.85%		
AGL Resources Inc.	100,000	3,764,000
Equitable Resources, Inc.	85,000	4,528,800
Questar Corp.	107,000	5,788,700
		14,081,500
Independent Power Producers & Energy Traders–6.14%		
Constellation Energy Group	36,000	3,691,080
NRG Energy, Inc.[c]	140,000	6,067,600
		9,758,680
Integrated Telecommunication Services–12.23%		
Alaska Communications Systems Group Inc.	316,622	4,749,330
AT&T Inc.	215,000	8,935,400
Verizon Communications Inc.	132,000	5,767,080
		19,451,810
Multi-Utilities–22.02%		
Ameren Corp.	67,000	$ 3,632,070
CMS Energy Corp.	215,000	3,736,700
Dominion Resources, Inc.	98,000	4,650,100
National Grid PLC (United Kingdom)[b]	215,000	3,548,032
OGE Energy Corp.	29,000	1,052,410
PG&E Corp.	96,000	4,136,640
SCANA Corp.	27,000	1,138,050
Sempra Energy	93,000	5,754,840
Veolia Environnement (France)[b]	42,000	3,807,346
Xcel Energy, Inc.	158,000	3,566,060
		35,022,248
Oil & Gas Storage & Transportation–9.99%		
El Paso Corp.	320,000	5,516,800
Spectra Energy Corp.	151,000	3,898,820
Williams Cos., Inc. (The)	181,000	6,476,180
		15,891,800
Wireless Telecommunication Services–0.91%		
Sprint Nextel Corp.	110,000	1,444,300
Total Common Stocks (Cost $102,003,023)		154,807,806
Money Market Funds–2.64%		
Liquid Assets Portfolio–Institutional Class[d]	2,099,913	2,099,913
Premier Portfolio–Institutional Class[d]	2,099,913	2,099,913
Total Money Market Funds (Cost $4,199,826)		4,199,826
TOTAL INVESTMENTS–99.98% (Cost $106,202,849)		159,007,632
OTHER ASSETS LESS LIABILITIES–0.02%		32,983
NET ASSETS–100.00%		$159,040,615

Notes to Schedule of Investments:

(a) 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.

(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 value of these securities at December 31, 2007 was $14,668,446, which represented 9.22% of the Fund's Net Assets. See Note 1A.

(c) Non-income producing security.

(d) The money market fund and the Fund are affiliated by having the same investment advisor. See Note 3.

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Assets and Liabilities

December 31, 2007

Assets:	
Investments, at value (Cost $102,003,023)	$154,807,806
Investments in affiliated money market funds (Cost $4,199,826)	4,199,826
Total investments (Cost $106,202,849)	159,007,632
Foreign currencies, at value (Cost $11,639)	11,722
Receivables for:	
Fund shares sold	45,593
Dividends	455,366
Fund expenses absorbed	5,322
Investment for trustee deferred compensation and retirement plans	47,785
Total assets	159,573,420
Liabilities:	
Payables for:	
Fund shares reacquired	345,648
Trustee deferred compensation and retirement plans	56,592
Accrued administrative services fees	89,090
Accrued distribution fees — Series II	2,251
Accrued trustees' and officer's fees and benefits	438
Accrued transfer agent fees	1,574
Accrued operating expenses	37,212
Total liabilities	532,805
Net assets applicable to shares outstanding	$159,040,615
Net assets consist of:	
Shares of beneficial interest	$ 93,998,840
Undistributed net investment income	3,000,396
Undistributed net realized gain	9,230,425
Unrealized appreciation	52,810,954
	$159,040,615
Net Assets:	
Series I	$155,747,991
Series II	$ 3,292,624
Shares outstanding, $0.001 par value per share, unlimited number of shares authorized:	
Series I	6,497,179
Series II	138,369
Series I:	
Net asset value per share	$ 23.97
Series II:	
Net asset value per share	$ 23.80

Statement of Operations

For the year ended December 31, 2007

Investment income:	
Dividends (net of foreign withholding taxes of $48,496)	$ 4,257,481
Dividends from affiliated money market funds (includes securities lending income of $28,208)	245,174
Total investment income	4,502,655
Expenses:	
Advisory fees	931,382
Administrative services fees	404,040
Custodian fees	13,280
Distribution fees — Series II	7,721
Transfer agent fees	18,146
Trustees' and officer's fees and benefits	20,858
Other	61,683
Total expenses	1,457,110
Less: Fees waived and expense offset arrangement(s)	(8,342)
Net expenses	1,448,768
Net investment income	3,053,887
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	12,122,415
Foreign currencies	(1,791)
	12,120,624
Change in net unrealized appreciation of:	
Investment securities	12,993,470
Foreign currencies	3,469
	12,996,939
Net realized and unrealized gain	25,117,563
Net increase in net assets resulting from operations	$28,171,450

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Statement of Changes in Net Assets

For the years ended December 31, 2007 and 2006

	2007	2006
Operations:		
Net investment income	$ 3,053,887	$ 2,903,361
Net realized gain	12,120,624	8,810,025
Change in net unrealized appreciation	12,996,939	16,338,522
Net increase in net assets resulting from operations	28,171,450	28,051,908
Distributions to shareholders from net investment income:		
Series I	(2,819,765)	(4,313,053)
Series II	(60,178)	(75,912)
Total distributions from net investment income	(2,879,943)	(4,388,965)
Distributions to shareholders from net realized gains:		
Series I	(7,308,544)	(2,662,863)
Series II	(167,024)	(47,944)
Total distributions from net realized gains	(7,475,568)	(2,710,807)
Decrease in net assets resulting from distributions	(10,355,511)	(7,099,772)
Share transactions–net:		
Series I	(820,698)	4,313,312
Series II	504,038	1,371,296
Net increase (decrease) in net assets resulting from share transactions	(316,660)	5,684,608
Net increase in net assets	17,499,279	26,636,744
Net assets:		
Beginning of year	141,541,336	114,904,592
End of year (including undistributed net investment income of $3,000,396 and $2,828,242, respectively)	$159,040,615	$141,541,336

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

Notes to Financial Statements

December 31, 2007

NOTE 1—Significant Accounting Policies

AIM V.I. 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 separate portfolios, (each constituting a ''Fund''). 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 Fund or class will be voted on exclusively by the shareholders of such Fund or class. Current Securities and Exchange Commission (''SEC'') guidance, however, requires participating insurance companies offering separate accounts to vote shares proportionally in accordance with the instructions of the contract owners whose investments are funded by shares of each Fund or class. The assets, liabilities and operations of each portfolio are accounted for separately. Information presented in these financial statements pertains only to the Fund.

The Fund's investment objectives are capital growth and current income.

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 or official closing price as of the close of the customary trading session on the exchange where the security is principally traded, or lacking any sales or official closing price on a particular day, the security may be valued at the closing bid price on that day. Securities traded in the over-the-counter market are valued based on prices furnished by independent pricing services or market makers. When such securities are valued by an independent pricing service they may be considered fair valued. Futures contracts are valued at the final settlement price set by an exchange on which they are principally traded. Listed options are valued at the mean between the last bid and 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 are valued 15 minutes after the close of the customary trading session of the New York Stock Exchange (''NYSE'').

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

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

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. If market quotations are available and reliable for foreign exchange traded equity securities, the securities will be valued at the market quotations. Because trading hours for certain foreign securities end before the close of the NYSE, closing market quotations may become unreliable. If between the time trading ends on a particular security and the close of the customary trading session on the NYSE, events occur that are significant and may make the closing price unreliable, the Fund may fair value the security. If the event is likely to have affected the closing price of the security, the security will be valued at fair value in good faith using procedures approved by the Board of Trustees. Adjustments to closing prices to reflect fair value may also be based on a screening process of an independent pricing service to indicate the degree of certainty, based on historical data, that the closing price in the principal market where a foreign security trades is not the current value as of the close of the NYSE. Foreign securities meeting the approved degree of certainty that the price is not reflective of current value will be priced at the indication of fair value from the independent pricing service. Multiple factors may be considered by the independent pricing service in determining adjustments to reflect fair value and may include information relating to sector indices, ADRs and domestic and foreign index futures. Foreign securities may have additional risks including exchange rate changes, potential for sharply devalued currencies and high inflation, political and economical upheaval, the relative lack of issuer information, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

Securities for which market prices are not provided by any of the above methods may be valued based upon quotes furnished by independent sources 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.

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.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer's assets, general economic conditions, interest rates, investor perceptions and market liquidity.

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.

The Fund may periodically participate in litigation related to Fund investments. As such, the Fund may receive proceeds from litigation settlements. Any proceeds as received are included in the Statement of Operations as realized gain/loss for investments no longer held and as unrealized gain/loss for investments still held.

Brokerage commissions and mark ups are considered transaction costs and are recorded as an increase to the cost basis of securities purchased and/or a reduction of proceeds on a sale of securities. Such transaction costs are included in the determination of 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. Country Determination — For the purposes of making investment selection decisions and presentation in the Schedule of Investments, AIM may determine the country in which an issuer is located and/or credit risk exposure based on various factors. These factors include the laws of the country under which the issuer is organized, where the issuer maintains a principal office, the country in which the issuer derives 50% or more of its total revenues and the country that has the primary market for the issuer's securities, as well as other criteria. Among the other criteria that may be evaluated for making this determination are the country in which the issuer maintains 50% or more of its assets, the type of security, financial guarantees and enhancements, the nature of the collateral and the sponsor organization. Country of issuer and/or credit risk exposure has been determined to be the United States of America unless otherwise noted.

D. Distributions — Distributions from 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.

E. 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 to distribute substantially all of the Fund's taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders. Therefore, no provision for federal income taxes is recorded in the financial statements.

The Fund files tax returns in the U.S. federal jurisdiction and certain other jurisdictions. Generally the Fund is subject to examinations by such taxing authorities for tax periods after 2003.

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

G. Accounting Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including estimates and assumptions related to taxation. Actual results could differ from those estimates.

H. Indemnifications — Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust (including the Trust's investment manager) is indemnified 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. The risk of material loss as a result of such indemnification claims is considered remote.

I. Risks Involved in Investing in the Fund — The Fund's investments are concentrated in a comparatively narrow segment of the economy. Consequently, the Fund may tend to be more volatile than other mutual funds, and the value of the Fund's investments may tend to rise and fall more rapidly.

J. 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.

The Fund may invest in foreign securities which may be subject to foreign taxes on income, gains on investments or currency repatriation, a portion of which may be recoverable. Taxes are accrued based on the Fund's current interpretation of tax regulations and rates that exist in the foreign markets in which the Fund invests.

K. 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. Fluctuations in the value of these contracts are recorded as unrealized appreciation (depreciation) until the contracts are closed. When these contracts are closed, realized gains (losses) are recorded. Realized and unrealized gains and losses on these contracts are included in the Statement of Operations. The Fund could be exposed to risk, which may be in excess of the amount reflected in the Statement of Assets and Liabilities, 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 AIM based on the annual rate of 0.60% of the Fund's average daily net assets.

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 Series I shares to 0.93% and Series II shares to 1.18% of average daily net assets, through at least April 30, 2009. 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 net annual operating expenses to exceed the numbers reflected above: (i) interest; (ii) taxes; (iii) dividend expense on short sales; (iv) extraordinary items; (v) expenses related to a merger or reorganization, as approved by the Fund's Board of Trustees; and (vi) expenses that the Fund has incurred but did not actually pay because of an expense offset arrangement. Currently, in addition to the expense reimbursement arrangement with Invesco Ltd. (''Invesco'') described more fully below, the only expense offset arrangements from which the Fund may benefit 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. These credits are used to pay certain expenses incurred by the Fund.

Further, effective July 1, 2007, AIM has contractually agreed, through at least April 30, 2009, to waive 100% of the advisory fee AIM receives from the affiliated money market funds on investments by the Fund in such affiliated money market funds (excluding investments made in affiliated money market funds with cash collateral from securities loaned by the Fund). Prior to July 1, 2007, AIM had voluntarily agreed to waive 25% of the advisory fee AIM receives from the affiliated money market funds on investments by the Fund in such affiliated money market funds.

For the year ended December 31, 2007, AIM waived advisory fees of $8,164.

At the request of the Trustees of the Trust, Invesco agreed to reimburse expenses incurred by the Fund in connection with market timing matters in the AIM Funds, which may include legal, audit, shareholder reporting, communications and trustee expenses. For the year ended December 31, 2007, Invesco did not reimburse any expenses.

The Trust has entered into a master administrative services agreement with AIM pursuant to which the Fund has agreed to pay AIM a fee for costs incurred in providing accounting services and fund administrative services to the Fund and to reimburse AIM for administrative services fees paid to insurance companies that have agreed to provide services to the participants of separate accounts. These administrative services provided by the insurance companies may include, among other things: the printing of prospectuses, financial reports and proxy statements and the delivery of the same to existing participants; the maintenance of master accounts; the facilitation of purchases and redemptions requested by the participants; and the servicing of participants' accounts. Pursuant to such agreement, for the year ended December 31, 2007, AIM was paid $50,000 for accounting and fund administrative services and reimbursed $354,040 for services provided by insurance companies.

The Trust has entered into a transfer agency and service agreement with AIM Investment Services, Inc. (''AIS'') pursuant to which the Fund has agreed to pay AIS a fee for providing transfer agency and shareholder services to the Fund and reimburse AIS for certain expenses incurred by AIS in the course of providing such services. For the year ended December 31, 2007, expenses incurred under the agreement are shown in the Statement of Operations as transfer agent fees.

The Trust has entered into a master distribution agreement with A I M Distributors, Inc. (''ADI'') 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 ADI compensation at the annual rate of 0.25% of the Fund's average daily net assets of Series II shares. Of the Plan payments, up to 0.25% of the average daily net assets of the Series II shares may be paid to insurance companies who furnish continuing personal shareholder services to customers who purchase and own Series II shares of the Fund. For the year ended December 31, 2007, expenses incurred under the Plan are detailed in the Statement of Operations as distribution fees.

Certain officers and trustees of the Trust are officers and directors of AIM, AIS and/or ADI.

NOTE 3—Investments in Affiliates

The Fund is permitted, pursuant to procedures approved by the Board of Trustees, to invest daily available cash balances and cash collateral from securities lending transactions in affiliated money market funds. The Fund and the money market funds below have the same investment advisor and therefore, are considered to be affiliated. The tables below show the transactions in and earnings from investments in affiliated money market funds for the year ended December 31, 2007. During the period each investment maintained a $1.00 net asset value, as such there is no realized gain/(loss) and no change in unrealized appreciation/(depreciation).

Investments of Daily Available Cash Balances:

Fund	Value 12/31/06	Purchases at Cost	Proceeds from Sales	Value 12/31/07	Dividend Income
Liquid Assets Portfolio–Institutional Class	$3,563,271	$31,808,212	$(33,271,570)	$2,099,913	$108,597
Premier Portfolio-Institutional Class	3,563,271	31,808,212	(33,271,570)	2,099,913	108,369
Subtotal	$7,126,542	$63,616,424	$(66,543,140)	$4,199,826	$216,966

Investments of Cash Collateral from Securities Lending Transactions:

Fund	Value 12/31/06	Purchases at Cost	Proceeds from Sales	Value 12/31/07	Dividend Income*
Liquid Assets Portfolio–Institutional Class	$ —	$ 5,367,752	$ (5,367,752)	$ —	$ 28,208
Total Investments in Affiliates	$7,126,542	$68,984,176	$(71,910,892)	$4,199,826	$245,174

* Net of compensation to counterparties.

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, 2007, the Fund received credits from this arrangement, which resulted in the reduction of the Fund's total expenses of $178.

NOTE 5—Trustees' and Officer's Fees and Benefits

''Trustees' and Officer's Fees and Benefits'' include amounts accrued by the Fund to pay remuneration to certain Trustees and Officers of the Fund. Trustees have the option to defer compensation payable by the Fund, and ''Trustees' and Officer's Fees and Benefits'' also include amounts accrued by the Fund to fund such deferred compensation amounts. Those Trustees who defer compensation have the option to select various AIM Funds in which their deferral accounts shall be deemed to be invested. Finally, certain 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 who also participate in a retirement plan and receive benefits under such plan. ''Trustees' and Officer's Fees and Benefits'' include amounts accrued by the Fund to fund such retirement benefits. Obligations under the deferred compensation and retirement plans represent unsecured claims against the general assets of the Fund.

During the year ended December 31, 2007, the Fund paid legal fees of $3,975 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 party to 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, 2007, 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 as a compensating balance in the account so the custodian bank can be compensated by earning the additional interest; or (ii) compensate by paying the custodian bank at a rate agreed upon by the custodian bank and AIM, not to exceed the contractually agreed upon rate.

NOTE 7—Portfolio Securities Loaned

The Fund may lend portfolio securities having a market value up to one-third of the Fund's total assets. Such loans are secured by collateral equal to no less than the market value of the loaned securities determined daily by the securities lending provider. Such collateral will be cash or debt securities issued or guaranteed by the U.S. Government or any of its agencies. Cash collateral received in connection with these loans is invested in short-term money market instruments or affiliated money market funds. It is the Fund's policy to obtain additional collateral from or return excess collateral to the borrower by the end of the next business day, following the valuation date of the securities loaned. Therefore, the value of the collateral held may be temporarily less than the value of the securities on loan. Lending securities entails a risk of loss to the Fund if and to the extent that the market value of the securities loaned were to increase and the borrower did not increase the collateral accordingly, and the borrower fails to return the securities. The Fund could also experience delays and costs in gaining access to the collateral. The Fund bears the risk of any deficiency in the amount of the collateral available for return to the borrower due to any loss on the collateral invested.

At December 31, 2007, there were no securities out on loan. For the year ended December 31, 2007, the Fund received dividends on cash collateral investments of $28,208 for securities lending transactions during the period, which are net of compensation to counterparties.

NOTE 8—Distributions to Shareholders and Tax Components of Net Assets

Distributions to Shareholders:

The tax character of distributions paid during the years ended December 31, 2007 and 2006 was as follows:

	2007	2006
Distributions paid from:		
Ordinary income	$ 3,761,176	$4,388,965
Long-term capital gain	6,594,335	2,710,807
Total distributions	$10,355,511	$7,099,772

Tax Components of Net Assets:

As of December 31, 2007, the components of net assets on a tax basis were as follows:

	2007
Undistributed ordinary income	$ 3,096,064
Undistributed long-term gain	11,180,432
Net unrealized appreciation — investments	52,652,128
Temporary book/tax differences	(47,435)
Capital loss carryforward	(1,839,286)
Post-October currency loss deferral	(128)
Shares of beneficial interest	93,998,840
Total net assets	$159,040,615

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 net unrealized appreciation difference is attributable primarily to losses on wash sales. The tax-basis net unrealized appreciation on investments amount includes appreciation on foreign currencies of $6,171.

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 benefits.

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, 2007 to utilizing $919,643 of capital loss carryforward in the fiscal year ended December 31, 2008.

The Fund utilized $919,643 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, 2007 which expires as follows:

Expiration	Capital Loss Carryforward*
December 31, 2009	$1,839,286

* 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 9—Investment Securities

The aggregate amount of investment securities (other than short-term securities, U.S. Treasury obligations and money market funds, if any) purchased and sold by the Fund during the year ended December 31, 2007 was $43,961,629 and $48,636,473, respectively.

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

Aggregate unrealized appreciation of investment securities	$53,252,966
Aggregate unrealized (depreciation) of investment securities	(607,009)
Net unrealized appreciation of investment securities	$52,645,957

Cost of investments for tax purposes is $106,361,675.

NOTE 10—Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of foreign currency transactions on December 31, 2007, undistributed net investment income was decreased by $1,790 and undistributed net realized gain was increased by $1,790. This reclassification had no effect on the net assets of the Fund.

NOTE 11—Share Information

Changes in Shares Outstanding

	Year ended December 31,			
	2007[a]		2006	
	Shares	Amount	Shares	Amount
Sold:				
Series I	2,496,664	$ 59,127,619	2,859,050	$ 55,911,823
Series II	47,500	1,114,914	71,923	1,371,458
Issued as reinvestment of dividends:				
Series I	416,289	10,128,309	329,053	6,975,916
Series II	9,404	227,202	5,876	123,856
Reacquired:				
Series I	(2,965,731)	(70,076,626)	(3,038,761)	(58,574,427)
Series II	(35,116)	(838,078)	(6,299)	(124,018)
	(30,990)	$ (316,660)	220,842	$ 5,684,608

[a] There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate they own 57% 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 entities are also owned beneficially.

NOTE 12—Significant Event

At a meeting held on December 13, 2007, the Board of Trustees of Trust approved certain proposals to be presented for shareholder approval at a special meeting of the shareholders of the Trust intended to be held on February 29, 2008 (the ''Special Meeting''). At the Special Meeting, shareholders of record as of the close of business on November 30, 2007, are entitled to vote their respective shares on several proposals that including, among others the following proposal.

New proposed sub-advisory agreement between A I M Advisors, Inc. (''AIM'') and each of AIM Funds Management Inc., Invesco Asset Management Deutschland, GmbH, Invesco Asset Management Limited, Invesco Asset Management (Japan) Limited, Invesco Australia Limited, Invesco Global Asset Management (N.A.), Inc., Invesco Hong Kong Limited, Invesco Institutional (N.A.), Inc. and Invesco Senior Secured Management, Inc. (collectively, the ''Affiliated Sub-Advisers''). This proposal is intended to benefit the Fund and its shareholders by permitting AIM to utilize the additional resources and talent of these affiliated sub-advisers in managing the Fund. Because AIM would pay all of the sub-advisory fees of the sub-advisers, the new sub-advisory agreement would not affect the fees the Fund pays to AIM pursuant to the advisory agreement. If approved by shareholders, the New Sub-advisory Arrangements are expected to become effective on or about May 1, 2008.

NOTE 13—Financial Highlights

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

	Series I				
	Year ended December 31,				
	2007	2006	2005	2004	2003
Net asset value, beginning of period	$ 21.23	$ 17.83	$ 15.61	$ 12.95	$ 11.16
Income from investment operations:					
Net investment income[a]	0.47	0.47	0.42	0.42	0.33
Net gains on securities (both realized and unrealized)	3.94	4.06	2.21	2.57	1.60
Total from investment operations	4.41	4.53	2.63	2.99	1.93
Less distributions:					
Dividends from net investment income	(0.47)	(0.70)	(0.41)	(0.33)	(0.14)
Distributions from net realized gains	(1.20)	(0.43)	—	—	—
Total distributions	(1.67)	(1.13)	(0.41)	(0.33)	(0.14)
Net asset value, end of period	$ 23.97	$ 21.23	$ 17.83	$ 15.61	$ 12.95
Total return[b]	20.64%	25.46%	16.83%	23.65%	17.38%
Ratios/supplemental data:					
Net assets, end of period (000s omitted)	$155,748	$139,080	$114,104	$159,554	$62,510
Ratio of expenses to average net assets:					
With fee waivers and/or expense reimbursements	0.93%[c]	0.93%	0.93%	1.01%	1.08%
Without fee waivers and/or expense reimbursements	0.94%[c]	0.96%	0.96%	1.01%	1.08%
Ratio of net investment income to average net assets	1.97%[c]	2.40%	2.49%	3.09%	2.84%
Portfolio turnover rate	30%	38%	49%	52%	58%

(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 $152,141,734.

	Series II			
	Year ended December 31,			April 30, 2004 (commencement date) to December 31,
	2007	2006	2005	2004
Net asset value, beginning of period	$21.12	$17.76	$15.57	$ 12.63
Income from investment operations:				
Net investment income[a]	0.41	0.42	0.38	0.26
Net gains on securities (both realized and unrealized)	3.91	4.06	2.20	2.68
Total from investment operations	4.32	4.48	2.58	2.94
Less distributions:				
Dividends from net investment income	(0.44)	(0.69)	(0.39)	—
Distributions from net realized gains	(1.20)	(0.43)	—	—
Total distributions	(1.64)	(1.12)	(0.39)	—
Net asset value, end of period	$23.80	$21.12	$17.76	$ 15.57
Total return[b]	20.32%	25.25%	16.55%	23.28%
Ratios/supplemental data:				
Net assets, end of period (000s omitted)	$3,293	$2,462	$ 801	$ 602
Ratio of expenses to average net assets:				
With fee waivers and/or expense reimbursements	1.18%[c]	1.18%	1.18%	1.28%[d]
Without fee waivers and/or expense reimbursements	1.19%[c]	1.21%	1.21%	1.28%[d]
Ratio of net investment income to average net assets	1.72%[c]	2.15%	2.24%	2.82%[d]
Portfolio turnover rate[e]	30%	38%	49%	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 total returns.
(c) Ratios are based on average daily net assets of $3,088,553.
(d) Annualized.
(e) Portfolio turnover is calculated at the fund level and is not annualized for periods less than one year.

NOTE 14—Legal Proceedings

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

Pending Litigation and Regulatory Inquiries

On August 30, 2005, the West Virginia Office of the State Auditor — Securities Commission (''WVASC'') issued a Summary Order to Cease and Desist and Notice of Right to Hearing to A I M Advisors, Inc. (''AIM'') and A I M Distributors, Inc. (''ADI'') (Order No. 05-1318). The WVASC makes findings of fact that AIM and ADI entered into certain arrangements permitting market timing of the AIM Funds and failed to disclose these arrangements in the prospectuses for such Funds, and conclusions of law to the effect that AIM and ADI violated the West Virginia securities laws. The WVASC orders AIM and ADI to cease any further violations and seeks to impose monetary sanctions, including restitution to affected investors, disgorgement of fees, reimbursement of investigatory, administrative and legal costs and an ''administrative assessment,'' to be determined by the Commissioner. Initial research indicates that these damages could be limited or capped by statute. By agreement with the Commissioner of Securities, AIM's time to respond to that Order has been indefinitely suspended.

Civil lawsuits, including purported class action and shareholder derivative suits, have been filed against certain of the AIM Funds, INVESCO Funds Group, Inc. (''IFG'') (the former investment advisor to certain AIM Funds), AIM, ADI and/or related entities and individuals, depending on the lawsuit, alleging:

- that the defendants permitted improper market timing and related activity in the AIM Funds; and
- that certain AIM Funds inadequately employed fair value pricing.

These lawsuits allege as theories of recovery, depending on the lawsuit, violations of various provisions of the Federal and state securities laws and ERISA, negligence, breach of fiduciary duty and/or breach of contract. These lawsuits seek remedies that include, depending on the lawsuit, damages, restitution, injunctive relief, imposition of a constructive trust, removal of certain directors and/or employees, various corrective measures under ERISA, rescission of certain AIM Funds' advisory agreements and/or distribution plans and recovery of all fees paid.

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''). Pursuant to an Order of the MDL Court, plaintiffs in these lawsuits 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 Invesco Ltd. (''Invesco'') 401(k) plan. Based on orders issued by the MDL Court, all claims asserted against the AIM Funds that have been transferred to the MDL Court have been dismissed, although certain Funds remain nominal defendants in the Consolidated Amended Fund Derivative Complaint. On September 15, 2006, the MDL Court granted the Invesco defendants' motion to dismiss the Amended Class Action Complaint for Violations of ERISA and dismissed such Complaint. The plaintiff has commenced an appeal from that decision.

IFG, AIM, ADI and/or related entities and individuals have received inquiries from numerous regulators 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, among others, 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 security holders. IFG, AIM and ADI have advised the Fund that they are providing full cooperation with respect to these inquiries. Regulatory actions and/or additional civil lawsuits related to these or other issues may be filed against the AIM Funds, IFG, AIM and/or related entities and individuals 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 Pending Litigation and Regulatory Inquiries described above may have on AIM, ADI or the Fund.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of AIM Variable Insurance Funds
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 (one of the funds constituting AIM Variable Insurance Funds, hereafter referred to as the ''Fund'') at December 31, 2007, 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, 2007 by correspondence with the custodian, provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

February 12, 2008
Houston, Texas

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, 2007, through December 31, 2007.

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

Actual expenses

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

Hypothetical example for comparison purposes

The table below also provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return.

The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

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

		ACTUAL		HYPOTHETICAL (5% annual return before expenses)		
Class	**Beginning Account Value (07/01/07)**	**Ending Account Value (12/31/07)[1]**	**Expenses Paid During Period[2]**	**Ending Account Value (12/31/07)**	**Expenses Paid During Period[2]**	**Annualized Expense Ratio**
Series I	$1,000.00	$1,069.90	$4.85	$1,020.52	$4.74	0.93%
Series II	1,000.00	1,069.10	6.15	1,019.26	6.01	1.18

[1] The actual ending account value is based on the actual total return of the Fund for the period July 1, 2007, through December 31, 2007, after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's expense ratio and a hypothetical annual return of 5% before expenses.

[2] Expenses are equal to the Fund's annualized expense ratio as indicated above multiplied by the average account value over the period, multiplied by 184/365 to reflect the most recent fiscal half year.

Tax Information

Form 1099-DIV, Form 1042-S and other year-end tax information provide shareholders with actual calendar year amounts that should be included in their tax returns. Shareholders should consult their tax advisors.

The following distribution information is being provided as required by the Internal Revenue Code or to meet a specific state's requirement.

The Fund designates the following amounts or, if subsequently determined to be different, the maximum amount allowable for its fiscal year ended December 31, 2007:

Federal and State Income Tax

Long-Term Capital Gain Dividends	$6,594,335
Corporate Dividends Received Deduction*	87.48%

* The above percentage is based on ordinary income dividends paid to shareholders during the Fund's fiscal year.

Trustees and Officers

The address of each trustee and officer of AIM Variable Insurance Funds (the ''Trust''), is 11 Greenway Plaza, Suite 100, Houston, Texas 77046-1173. Each trustee oversees 104 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. Each officer serves for a one year term or until their successors are elected and qualified. 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 Trusteeship(s)/ Directorship(s) Held by Trustee/Director
Interested Persons			
Martin L. Flanagan[1] — 1960 Trustee	2007	Director, Chief Executive Officer and President, Invesco Ltd. (ultimate parent of AIM and a global investment management firm) and, Invesco Holding Company (parent of AIM and a global investment management firm); Chairman, A I M Advisors, Inc. (registered investment advisor); Director, Chairman, Chief Executive Officer and President, IVZ Inc. (holding company); and INVESCO North American Holdings, Inc. (holding company); Chairman and President, INVESCO Group Services, Inc. (service provider); Trustee, The AIM Family of Funds®; Vice Chairman, Investment Company Institute; and Member of Executive Board, SMU Cox School of Business Formerly: Chairman, Investment Company Institute; President, Co-Chief Executive Officer, Co-President, Chief Operating Officer and Chief Financial Officer, Franklin Resources, Inc. (global investment management organization)	None
Philip A. Taylor[2] — 1954 Trustee, President and Principal Executive Officer	2006	Director, Chief Executive Officer and President, AIM Mutual Fund Dealer Inc. (registered broker dealer), A I M Advisors, Inc., AIM Funds Management Inc. d/b/a INVESCO Enterprise Services (registered investment advisor and registered transfer agent), AIM Trimark Corporate Class Inc. (formerly AIM Trimark Global Fund Inc.) (corporate mutual fund company) and AIM Trimark Canada Fund Inc. (corporate mutual fund company), and 1371 Preferred Inc. (holding company); Director, Chairman, Chief Executive Officer and President, A I M Management Group Inc. (financial services holding company) and A I M Capital Management, Inc. (registered investment advisor); Director and President, INVESCO Funds Group, Inc. (registered investment advisor and register transfer agent) and AIM GP Canada Inc. (general partner for a limited partnership); Director, A I M Distributors, Inc. (registered broker dealer); Director and Chairman, AIM Investment Services, Inc. (registered transfer agent) and INVESCO Distributors, Inc. (registered broker dealer); Director, President and Chairman, IVZ Callco Inc. (holding company), INVESCO Inc. (holding company) and AIM Canada Holdings Inc. (holding company); Trustee, President and Principal Executive Officer of The AIM Family of Funds® (other than AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust); Trustee and Executive Vice President, The AIM Family of Funds® (AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust only); and Manager, PowerShares Capital Management LLC Formerly: Director and Chairman, Fund Management Company (registered broker dealer); President and Principal Executive Officer, The AIM Family of Funds® (AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust only); Chairman, AIM Canada Holdings, Inc.; President, AIM Trimark Global Fund Inc. and AIM Trimark Canada Fund Inc.; and Director, Trimark Trust (federally regulated Canadian Trust Company)	None
Independent Trustees			
Bruce L. Crockett — 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	None
Frank S. Bayley — 1939 Trustee	2001	Retired Formerly: Partner, law firm of Baker & McKenzie and Director, Badgley Funds, Inc. (registered investment company) (2 portfolios)	None
James T. Bunch — 1942 Trustee	2004	Founder, Green, Manning & Bunch Ltd., (investment banking firm) Formerly: 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); Reich & Tang Funds (Chairman) (registered investment company) (7 portfolios), Daily Income Fund (4 portfolios), California Daily Tax Free Income Fund, Inc., Connecticut Daily Tax Free Income Fund, Inc. and New Jersey Daily Municipal Fund, Inc., Annuity and Life Re (Holdings), Ltd. (insurance company), and Homeowners of America Holding Corporation (property casualty company) Formerly: Director, CompuDyne Corporation (provider of product and services to the public security market); Director, President and Chief Executive Officer, Volvo Group North America, Inc.; Senior Vice President, AB Volvo; Director of various affiliated Volvo companies; and Director, Magellan Insurance Company	None
Jack M. Fields — 1952 Trustee	1997	Chief Executive Officer, Twenty First Century Group, Inc. (government affairs company); and Owner and Chief Executive Officer, Dos Angelos Ranch, L.P. (cattle, hunting, corporate entertainment) Formerly: Chief Executive Officer, Texana Timber LP (sustainable forestry company), and Discovery Global Education Fund (non-profit)	Administaff
Carl Frischling — 1937 Trustee	1993	Partner, law firm of Kramer Levin Naftalis and Frankel LLP	Director, Reich & Tang Funds) (15 portfolios)
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
Larry Soll — 1942 Trustee	2004	Retired	None
Raymond Stickel, Jr. — 1944 Trustee	2005	Retired Formerly: Partner, Deloitte & Touche; and Director, Mainstay VP Series Funds, Inc. (25 portfolios)	None

[1] Mr. Flanagan was appointed as Trustee of the Trust on February 24, 2007. Mr. Flanagan is considered an interested person of the Trust because he is an officer of the advisor to the Trust, and an officer and a director of Invesco Ltd., ultimate parent of the advisor to the Trust.

[2] Mr. Taylor 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.

Trustees and Officers—(continued)

Name, Year of Birth and Position(s) Held with the Trust	Trustee and/or Officer Since	Principal Occupation(s) During Past 5 Years	Other Trusteeship(s)/ Directorship(s) Held by Trustee/ Director
Other Officers			
Russell C. Burk — 1958 Senior Vice President and Senior Officer	2005	Senior Vice President and Senior Officer of The AIM Family of Funds® Formerly: Director of Compliance and Assistant General Counsel, ICON Advisers, Inc.; Financial Consultant, Merrill Lynch; General Counsel and Director of Compliance, ALPS Mutual Funds, Inc.	N/A
John M. Zerr — 1962 Senior Vice President, Chief Legal Officer and Secretary	2006	Director, Senior Vice President, Secretary and General Counsel, A I M Management Group Inc., A I M Advisors, Inc. and A I M Capital Management, Inc.; Director, Vice President and Secretary, AIM Investment Services, Inc. and INVESCO Distributors, Inc.; Director, Senior Vice President and Secretary, A I M Distributors, Inc.; Director and Vice President, INVESCO Funds Group Inc.; Senior Vice President, Chief Legal Officer and Secretary of The AIM Family of Funds®; and Manager, PowerShares Capital Management LLC Formerly: Director, Vice President and Secretary, Fund Management Company; Vice President, A I M Capital Management, Inc.; Chief Operating Officer, Senior Vice President, General Counsel and Secretary, Liberty Ridge Capital, Inc. (an investment adviser); Vice President and Secretary, PBHG Funds (an investment company); Vice President and Secretary, PBHG Insurance Series Fund (an investment company); General Counsel and Secretary, Pilgrim Baxter Value Investors (an investment adviser); Chief Operating Officer, General Counsel and Secretary, Old Mutual Investment Partners (a broker-dealer); General Counsel and Secretary, Old Mutual Fund Services (an administrator); General Counsel and Secretary, Old Mutual Shareholder Services (a shareholder servicing center); Executive Vice President, General Counsel and Secretary, Old Mutual Capital, Inc. (an investment adviser); and Vice President and Secretary, Old Mutual Advisors Funds (an investment company)	N/A
Lisa O. Brinkley — 1959 Vice President	2004	Global Compliance Director, Invesco Ltd.; and Vice President of The AIM Family of Funds® Formerly: Senior Vice President, A I M Management Group Inc.; Senior Vice President and Chief Compliance Officer, A I M Advisors, Inc. and The AIM Family of Funds®; Vice President and Chief Compliance Officer, A I M Capital Management, Inc. and A I M Distributors, Inc.; Vice President, AIM Investment Services, Inc. and Fund Management Company; and Senior Vice President and Compliance Director, Delaware Investments Family of Funds	N/A
Kevin M. Carome — 1956 Vice President	2003	General Counsel, Secretary and Senior Managing Director, Invesco Ltd.; Director and Secretary, Invesco Holding Company Limited, IVZ, Inc. and INVESCO Group Services, Inc.; Director, INVESCO Funds Group, Inc.; Secretary, INVESCO North American Holdings, Inc.; and Vice President of The AIM Family of Funds® Formerly: Senior Managing Director, Invesco Holding Company Limited; Director, Senior Vice President, Secretary and General Counsel, A I M Management Group Inc. and A I M Advisors, Inc.; Senior Vice President, A I M Distributors, Inc.; Director, General Counsel and Vice President, Fund Management Company; Vice President, A I M Capital Management, Inc. and AIM Investment Services, Inc.; Senior Vice President, Chief Legal Officer and Secretary of The AIM Family of Funds®; Director and Vice President, INVESCO Distributors, Inc.; Chief Executive Officer and President, INVESCO Funds Group, Inc.; and Senior Vice President and General Counsel, Liberty Financial Companies, Inc.	N/A
Sidney M. Dilgren — 1961 Vice President, Principal Financial Officer and Treasurer	2004	Vice President, A I M Advisors, Inc. and A I M Capital Management, Inc.; and Vice President, Treasurer and Principal Financial Officer of The AIM Family of Funds® Formerly: Fund Treasurer, A I M Advisors, Inc.; Senior Vice President, AIM Investment Services, Inc.; and Vice President, A I M Distributors, Inc.	N/A
Karen Dunn Kelley — 1960 Vice President	2004	Head of Invesco's World Wide Fixed Income and Cash Management Group; Director of Cash Management and Senior Vice President, A I M Advisors, Inc. and A I M Capital Management, Inc; Executive Vice President, A I M Distributors, Inc.; Senior Vice President, A I M Management Group Inc.; Vice President, The AIM Family of Funds® (other than AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust); and President and Principal Executive Officer, The AIM Family of Funds® (AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust only) Formerly: Director and President, Fund Management Company; Chief Cash Management Officer and Managing Director, A I M Capital Management, Inc.; Vice President, A I M Advisors, Inc. and The AIM Family of Funds® (AIM Treasurer's Series Trust, Short-Term Investments Trust and Tax-Free Investments Trust only)	N/A
Lance A. Rejsek — 1967 Anti-Money Laundering Compliance Officer	2005	Anti-Money Laundering Compliance Officer, A I M Advisors, Inc., A I M Capital Management, Inc., A I M Distributors, Inc., AIM Investment Services, Inc., AIM Private Asset Management, Inc. and The AIM Family of Funds® Formerly: Anti-Money Laundering Compliance Officer, Fund Management Company; and Manager of the Fraud Prevention Department, AIM Investment Services, Inc.	N/A
Todd L. Spillane — 1958 Chief Compliance Officer	2006	Senior Vice President, A I M Management Group Inc.; Senior Vice President and Chief Compliance Officer, A I M Advisors, Inc. and A I M Capital Management, Inc.; Chief Compliance Officer of The AIM Family of Funds®, Invesco Global Asset Management (N.A.), Inc., (registered investment advisor), Invesco Institutional (N.A.), Inc., (registered investment advisor), INVESCO Private Capital Investments, Inc. (holding company), Invesco Private Capital, Inc. (registered investment advisor) and Invesco Senior Secured Management, Inc. (registered investment advisor); and Vice President, A I M Distributors, Inc. and AIM Investment Services, Inc. Formerly: Vice President, A I M Capital Management, Inc. and Fund Management Company; Global Head of Product Development, AIG-Global Investment Group, Inc.; and Chief Compliance Officer and Deputy General Counsel, AIG-SunAmerica Asset Management	N/A

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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Distributor
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Frankel LLP
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Custodian
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Company
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Alger American Balanced Portfolio

THE ALGER AMERICAN FUND

A pooled funding vehicle for:
- variable annuity contracts
- variable life insurance policies
- qualified pension plans
- qualified retirement plans

ANNUAL REPORT
December 31, 2007

ALGER

Table Of Contents

THE ALGER AMERICAN FUND

Dear Shareholders, *January 29, 2008*

Roller coaster: it's an apt metaphor for the past fiscal year. With the sharp run-up in the stock market through June, followed by the near-meltdown of those parts of the financial sector exposed to housing and mortgages, there were times when the financial markets felt like a long weekend at Six Flags Great Adventure. Even investors with cast-iron stomachs were wondering: why did this happen? How long can it continue? And is there an upside?

Once again, perceptions were more dramatic than realities. For all the agita in the markets, the indices posted solid gains in the United States, not to mention throughout the world, and the day-to-day volatility was ultimately less than the sum of its parts. Economic growth chugged along and most companies showed decent if not downright good earnings growth — with the notable and glaring exception of the financial sector in the fourth quarter of 2007. In short, there was noise, drama and even smoke, but not much actual fire. Or back to the initial metaphor, the roller coaster ride was full of sharp turns, shrieks, and moments of fear and anticipation, but the car stayed on the tracks, the ride ended safely, and most people even made some progress along the way.

Black Friday Revisited

In the financial markets it was a year of milestones and anniversaries. Both the S&P 500 Index[i] and the Dow Jones Industrial Average[ii] reached new heights during the year, with the Dow breaking 13,000 and then 14,000 twice. But October 19, 2007 was a more somber milestone: the 20th anniversary of Black Friday on Wall Street. In the days before, pundits didn't hesitate to predict a "curse" coming back to haunt the markets. (Sounds ridiculous, but a surprising number of articles had that *exact* headline the next morning.) Sure enough, the Dow tumbled by 247 points, but that was nothing compared to that one-day 508-point loss in 1987, especially in percentage terms. In today's market the Dow would have had to shed about 3,100 points in one day to be comparable to the crash of '87.

Three times this past year U.S. markets fell sharply. On February 27, the Dow lost 314 points, with a total decline of 736 points from February 20 to March 5. The sell-off was triggered by rumors of a possible Chinese government squeeze on credit. Then, the Dow climbed a total of 1,910 points over the following four months to register a new record of 14,000 on July 19. Through the end of July, the markets were turbulent as the sub-prime mortgage debacle unfolded. From July 26 through August 6, the Dow roller coaster went up and down with dizzying speed, with some days showing losses as great as 268 points while others showed gains of up to 169 points. But the true second phase of the market sell-off happened during the headiest days of the credit crunch — from August 8 to August 16 — with the Dow experiencing a total loss of 812 points. That was followed by a September rally that recouped most of the lost ground.

The third sell-off period occurred during the final weeks of the year, and lasted from October 11 through November 26 — when the Dow shed a total of 1,400 points, as the sub-prime mess erupted into a full-blown credit crisis involving banks and financial institutions. Even the tech sector — one of the strongest performers for the year — saw a steep pullback at the end of October. However, after each sell-off, the markets rebounded, and in some cases — as in the February drop — the markets moved into a long period of steady uphill climb.

To push our roller coaster metaphor even further — the number of extreme *single day swings* was even greater than the sell-off periods. In 2007, the Dow saw no less than eight days of single-day losses of more than 200 points (the largest being 314 points) and six days of gains of more than 169 points (with the largest being 319 points). Most telling, perhaps, is that on three separate days (August 16, 17, and November 8) the day's close showed little movement, yet *during the day* the Dow had swooned more than 442 points. On November 8, for example, the Dow fell 462 points before climbing back to a 64 point loss at day's end.

We believe the year's turbulence emphasizes a trend that has become more noticeable with each passing year: high-levels of short-term volatility and economic concerns unfolding against a backdrop of unusual global economic stability. The fact that so many people felt so unsettled even while the markets remained up for the year should tell us something about the disconnect between how people feel and what has actually been happening.

Global Growth and Earnings

Fifty years ago it was perfectly fair to say "as goes the U.S. economy, so go U.S. companies and their stocks." Today that no longer holds true. Earnings this year indicate that the trajectory of companies is different and more positive than that of countries and that the United States is no longer the sole guide to the health of U.S. firms. While U.S. GDP grew a paltry 0.6% in the first quarter of 2007, the companies of the S&P 500 Index registered nearly 8% growth. And, while economic data still matters, it is no longer a good idea to use the U.S. economy as an automatic proxy for how U.S. companies, or their stock prices, will perform.

The world economy has grown at a 4% annual pace for the past several years; according to BCA research, this has been the strongest expansion phase since 1960. And earnings for many companies — especially innovative growth companies — continue to benefit from very strong international growth, which has begun to "decouple" from dependence on the U.S. economy. One consumer company recently reported 2% growth in the U.S. market and 17% growth abroad with more than 50% growth in China alone. In fact, global equity markets have been on a tear and many U.S.-listed companies are benefiting from the same global growth trends. Especially for the larger companies of the S&P 500, the U.S. is simply one market, albeit a large and vital aspect of their global business model.

The weakness of the U.S. dollar is yet one more factor that has benefited U.S. companies doing business outside of the United States. Corporate profits have been boosted by a continuing weak dollar which inflates the reported dollar profits of U.S.-listed companies.

At the same time, global interest rates have compressed, with both short-term and long-term rates as well as corporate and government rates converging between 4% and 5%. One negative consequence of that compression is that many fixed-income managers have taken oversize risks in an attempt to generate above average returns, and the consequences of those risks has been nothing short of a debacle for many funds and for financial institutions exposed to housing and mortgage-backed securities.

The Sub-Prime Mortgage Mess

In August, the mortgage mess transmogrified into a global financial panic that seemed on the verge of draining not just excess liquidity out of the system but all liquidity. If that had happened — and there was some risk that it was about to — financial systems would have ground to a halt. Short-term liquidity in the form of commercial paper is to the financial system what water is to the body. Without it, all bets are — literally — off.

What threatened the financial system was that the leveraged exposure was substantially greater than the actual size of defaults or outstanding low-credit loans. Wall Street didn't simply "securitize" loans by slicing and dicing them. It buried them in packages of other loans and then bundled them with higher credit loans. When mortgage defaults began to rise on the lower end of the spectrum, many Wall Street institutions and hedge funds realized that they didn't really know which of these various loan derivatives were good and which were bad. The result was that trading in almost anything mortgage-related froze in the middle of July, creating a domino effect. Lenders and mortgage brokers tightened lending standards and banks demanded more collateral, not just for home loans, but for credit lines to hedge funds and private equity firms. Suddenly, getting a loan of any sort went from incredibly easy to astonishingly difficult.

That crisis was — at least temporarily — averted by the action of the Federal Reserve which cut the Fed funds rate by 50 basis points (one-half a percentage point) to 4.75% in mid-September, and followed up with additional quarter point cuts on October 31, and December 11 (and, as of this writing, an additional "emergency rate cut" of 75 basis points on January 11, 2008 to effectively mitigate stress from that weekend's global market crisis). These rate cuts were a sometimes welcome and perhaps essential step in preventing the mortgage mess from imperiling the financial system. Whether or not the cuts will have any lasting impact, or if they were merely a demonstration that the Fed could and would act if necessary, remains to be seen.

Our conclusion: it will continue to be a painful and dislocating period for real estate and for millions of people exposed to its descent. Low-end consumers, and many in the middle, will feel the pain. As adjustable-rate mortgages reset, there will be substantial numbers of foreclosures. Some Wall Street investment firms will lose money; many already have. But we do not believe that the global financial system is in jeopardy, nor do we think that the housing bust will severely dent corporate profits in those sectors of the economy not directly exposed to housing and mortgage-backed financial instruments. One unintended consequence is that stocks may ultimately benefit from the meltdown if investors find themselves turning to equities as a safe haven.

Portfolio Matters

The Alger American Balanced Portfolio returned 12.37% for the year ending December 31, 2007, compared to the Russell 1000 Growth Index[iii] which returned 11.82%.

Information Technology represented an average weight of 29.18% of the Portfolio's equity holdings, an overweight compared to the benchmark, and outperformed in this sector. Strong performers included Research MEMC Electronic Materials, Inc., Nintendo Co., Ltd., and Apple, Inc. The Portfolio also showed an outperformance in the energy sector, where the Portfolio was overweight the benchmark at an average weight of 7.06%. Prominent contributors included National Oilwell Varco, Cameron International Corp., and Transocean, Inc.

At an average weight of 11.83% the Portfolio was underweight the benchmark in the Industrials sector and showed a comparable performance. Leading contributions came from ITT Corp., General Dynamics, Inc., and First Solar, Inc.

In the Consumer Staples sector, the Portfolio, at an average weight of 10.61% was overweight and underperformed the benchmark, despite strong performances from the Altria Group, Inc., Procter & Gamble Co., and PepsiCo, Inc.

In its equities holdings the Portfolio saw weaker performances in the Consumer Discretionary sector from Starbucks Corp., and Comcast Corp., and in Financials from Citigroup, Inc.

The U.S. Fixed Income market was able to limp into year-end as several large Brokers and Money Center Banks took large losses on the continued deterioration of the subprime market. Tumultuous market conditions saw investors flee to the safety of U.S. Treasuries. Additionally, the Federal Reserve unveiled new plans to help liquidity after the LIBOR rate (the world's most widely used benchmark for short-term interest rates) became disconnected from the Fed Funds Rate during the volatile summer. Initiating auctions for as much as $20 billion the Treasury could provide funding for banks at sub-LIBOR levels more representative of the current Fed Funds rate. As such, the success of this effort became a valuable new tool for managing monetary policy.

For the year ending December 31, 2007, the fixed income portion of the Alger American Balanced Portfolio returned 5.61% versus the Lehman Brothers Government/Credit Bond Index[iv] return of 7.24%. As of December 31, 35% of the fixed income portfolio was in corporate securities, 34% in Mortgage/ABS, 20% in Treasuries, 8% in Agencies and 2% in cash.

In Summary

Wall Street tends to react to sudden changes in the status quo with apocalyptic rhetoric. Though we don't take the psychology of the markets lightly, proprietary indicators that we have used for many decades suggest that while these roller coaster movements may continue, the fundamental picture for many growth companies remains positive.

With continued global expansion, the unwinding of the mortgage mess and what likely will be a hectic and turbulent U.S. election season, 2008 looks to be unsettled in the equity markets. Swoons which came fast and furious in 2007 may happen even faster and be even more furious.

But the fundamentals of the economy, of companies in general, and of the domestic and global equity markets do not seem to us either weak or overvalued. As bottom-up stock pickers, we believe these market sell-offs offer excellent opportunities to add or increase positions in growth companies whose opportunities are, in fact, just beginning.

Respectfully submitted,

Daniel C. Chung	Zachary Karabell
Chief Investment Officer	*Chief Economist*

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i Standard & Poor's 500 Index is an index of the 500 largest and most profitable companies in the United States.

ii The Dow Jones Industrial Average is an index of common stocks comprised of major industrial companies and assumes reinvestment of dividends. It is frequently used as a general measure of stock market performance.

iii The Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Index measures the performance of the 3000 largest U.S. companies based on the total market capitalization, which represents 98% of the U.S. Equity Market.

iv Lehman Brothers Government/Credit Bond Index is an index designed to track performance of government and corporate bonds.

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

This report and the financial statements contained herein are submitted for the general information of shareholders of the Fund. This report is not authorized for distribution to prospective investors in the Fund unless proceeded or accompanied by an effective prospectus for the Fund. Fund performance returns represent the annual period return of Class O shares prior to the deduction of any sales charges. **The performance data quoted represents past performance, which is not an indication or guarantee of future results.** The investment return and principal value of an investment in a portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.

The views and opinions of the Fund's management in this report are as of the date of the shareholder letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Any securities mentioned should be considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a portfolio. Please refer to the Schedule of Investments for the portfolio which is included in this report for a complete list of portfolio holdings as of December 31, 2007. Securities mentioned in the shareholder letter, if not found in the Schedule of Investments, were held by the Fund during the Fund's fiscal year.

A Word About Risk

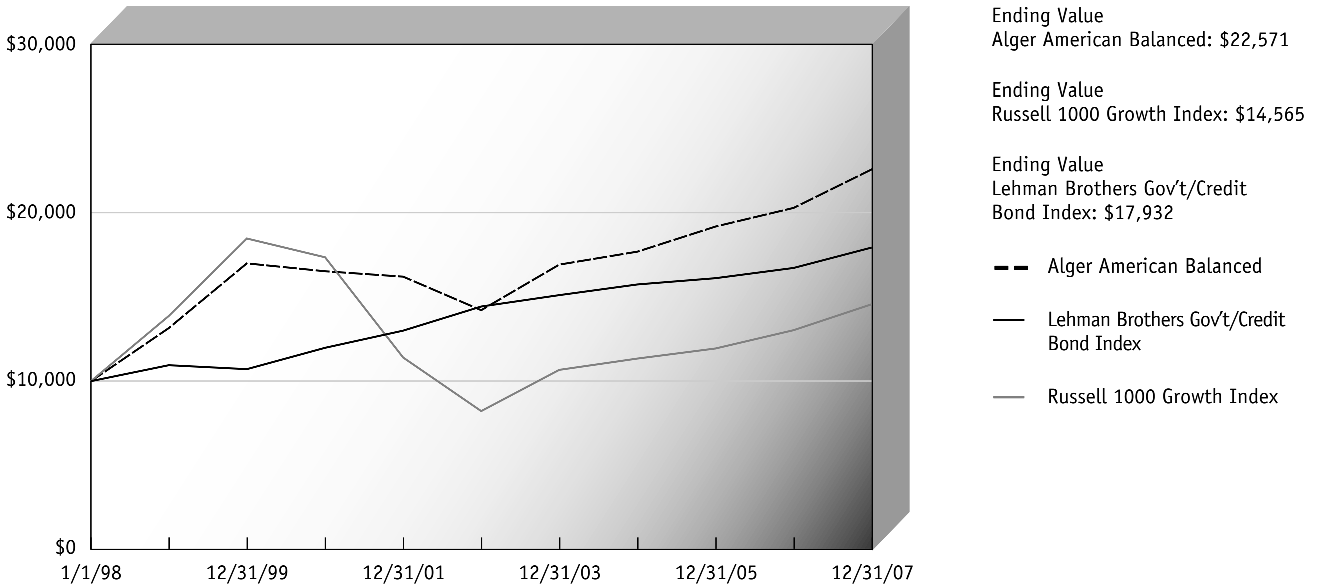
Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments. Stocks of small- and mid-sized companies are subject to greater risk than stocks of larger, more established companies owing to such factors as limited liquidity, inexperienced management, and limited financial resources. Portfolios that invest in fixed-income securities, such as the Balanced Portfolio, are subject to the fixed-income securities' sensitivity to interest rate movements; their market values tend to fall when interest rates rise and to rise when interest rates fall. These portfolios are also subject to the risk of a decline in the value of the portfolio's securities in the event of an issue's falling credit rating or actual default. For a more detailed discussion of the risks associated with a Portfolio, please see the Portfolio's Prospectus.

Mutual fund portfolios are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by banks, and are subject to investment risks, including possible loss of principal amount invested.

Before investing, carefully consider the Portfolio's investment objective, risks and charges and expenses. The Fund's prospectus contains this and other information about the Fund, and may be obtained by asking your financial advisor, calling us at (800) 992-3863, or visiting our website at www.alger.com, or contacting the Fund's distributor, Fred Alger & Company, Incorporated, 111 Fifth Avenue, New York 10003. Member NYSE, SIPC. Read the prospectus carefully before investing.

HYPOTHETICAL $10,000 INVESTMENT

— 10 years ended December 31, 2007



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, 2007. 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 and cash flows to that share class.

PERFORMANCE COMPARISON THROUGH DECEMBER 31, 2007

AVERAGE ANNUAL TOTAL RETURNS	1 YEAR	5 YEARS	10 YEARS	SINCE INCEPTION
Class O (Inception 9/5/89)	12.37%	9.69%	8.48%	9.11%
Russell 1000 Growth Index	11.82%	12.11%	3.83%	9.38%
Lehman Brothers Gov't/Credit Bond Index	7.24%	4.44%	6.01%	7.30%
Class S (Inception 5/1/02)	14.49%	9.87%	—	7.02%
Russell 1000 Growth Index	11.82%	12.11%	—	6.48%
Lehman Brothers Gov't/Credit Bond Index	7.24%	4.44%	—	5.57%

The performance data quoted represent past performance, which is not an indication or a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. For performance current to the most recent month-end, visit us at www.alger.com, or call us at (800) 254-3797.

Returns indicated assume reinvestment of all distributions, no transaction costs or taxes, and are net of management fees and fund operating expenses only. Total return does not include deductions at the portfolio or contract level for cost of insurance charges, premium load, administrative charges, mortality and expense risk charges or other charges that may be incurred under the variable annuity contract, variable life insurance plan or retirement plan for which the portfolio serves as an underlying investment vehicle. If these charges were deducted, the total return figures would be lower. Please refer to the variable insurance product or retirement plan disclosure documents for any additional applicable expenses. Investing in the stock market involves gains and losses and may not be suitable for all investors.

Portfolio Summary*
December 31, 2007 *(Unaudited)*

SECTORS/SECURITY TYPES	
Consumer Discretionary	5.8%
Consumer Staples	6.0
Energy	5.5
Financials	6.3
Health Care	11.7
Industrials	7.9
Information Technology	20.4
Materials	1.0
Telecommunication Services	0.4
Utilities	0.6
Total Common Stocks	65.6%
Corporate Obligations	16.8%
U.S. Agency Obligations	9.5
U.S. Treasury Obligations	6.7
Total Obligations	33.0%
Cash and Net Other Assets	1.4%
	100.0%

** Based on net assets for the Portfolio.*

Schedule of Investments *December 31, 2007*

COMMON STOCKS—65.5%	SHARES	VALUE
AEROSPACE & DEFENSE—2.9%		
Boeing Company	32,400	$ 2,833,704
General Dynamics Corporation	42,400	3,773,176
		6,606,880
AUTOMOTIVE EQUIPMENT & SERVICES—.4%		
Cummins Inc.	7,500	**955,275**
BEVERAGES—1.1%		
PepsiCo, Inc.	33,900	**2,573,010**
BIOTECHNOLOGY—.9%		
Genentech, Inc.*	23,000	1,542,610
Gilead Sciences, Inc.*	11,200	515,312
		2,057,922
CAPITAL MARKETS—.5%		
Legg Mason, Inc.	9,100	665,665
Morgan Stanley	10,400	552,344
		1,218,009
COMMUNICATION EQUIPMENT—3.3%		
Cisco Systems, Inc.*	123,100	3,332,317
QUALCOMM Inc.	44,600	1,755,010
Research In Motion Limited*	19,500	2,211,300
		7,298,627
COMPUTERS & PERIPHERALS—3.2%		
Apple Computer, Inc.*	20,700	4,100,256
Hewlett-Packard Company	27,400	1,383,152
Memc Electronic Materials, Inc.*	20,350	1,800,771
		7,284,179
COMPUTER SERVICES—.3%		
Akamai Technologies, Inc.*	16,700	**577,820**
CONGLOMERATE—1.5%		
ITT Corporation	49,700	**3,282,188**
DIVERSIFIED FINANCIAL SERVICES—.6%		
Citigroup Inc.	26,700	786,048
NYSE Euronext Inc.	5,500	482,735
		1,268,783
ELECTRONICS—1.5%		
Nintendo Co., Ltd. ADR#	27,700	2,073,503
SONY CORPORATION ADR#	24,600	1,335,780
		3,409,283
ENERGY—.5%		
First Solar, Inc.*	3,900	**1,041,846**
ENERGY EQUIPMENT & SERVICES—3.6%		
Cameron International Corp.*	31,600	1,520,908
National-Oilwell Varco Inc.*	27,500	2,020,150
Schlumberger Limited	20,750	2,041,177
Transocean Inc.*	16,783	2,402,486
		7,984,721
FINANCE—.5%		
IntercontinentalExchange Inc.*	5,500	**1,058,750**

COMMON STOCKS—(CONT.)	SHARES	VALUE
FINANCIAL SERVICES—3.6%		
Alibaba.com Corporation*	144,800	$ 513,469
AllianceBernstein Holding LP	9,600	722,400
Bovespa Holding SA*	31,200	601,213
CME Group Inc.	2,800	1,920,800
Nymex Holdings Inc.	22,700	3,032,947
UBS AG	26,750	1,230,500
		8,021,329
FOOD & STAPLES RETAILING—1.6%		
Walgreen Co.	69,000	2,627,520
Whole Foods Market, Inc.	25,000	1,020,000
		3,647,520
FOOD PRODUCTS—.3%		
Kraft Foods Inc. Cl. A	22,500	**734,175**
FREIGHT & LOGISTICS—.3%		
FedEx Corp.	7,300	**650,941**
HEALTH & PERSONAL CARE—.3%		
Brookdale Senior Living Inc.	20,150	**572,462**
HEALTH CARE EQUIPMENT & SUPPLIES—3.1%		
Beckman Coulter, Inc.	12,300	895,440
Hologic, Inc.*	22,100	1,516,944
Intuitive Surgical, Inc.*	3,600	1,168,200
Smith & Nephew Plc. ADR#	6,500	373,230
St. Jude Medical, Inc.*	32,600	1,324,864
Zimmer Holdings, Inc.*	25,600	1,693,440
		6,972,118
HEALTH CARE PROVIDERS & SERVICES—1.7%		
Health Net Inc.*	24,200	1,168,860
Quest Diagnostics Incorporated	16,800	888,720
UnitedHealth Group Incorporated	28,800	1,676,160
		3,733,740
HOTELS, RESTAURANTS & LEISURE—1.4%		
Accor SA	13,100	1,047,224
Carnival Corporation	7,700	342,573
Starbucks Corporation*	91,500	1,873,005
		3,262,802
HOUSEHOLD PRODUCTS—1.5%		
Procter & Gamble Company	45,700	**3,355,294**
INDUSTRIAL CONGLOMERATES—1.9%		
3M Co.	17,500	1,475,600
General Electric Company	77,500	2,872,925
		4,348,525
INFORMATION TECHNOLOGY SERVICES—.4%		
Cognizant Technology Solutions Corporation Cl. A*	28,900	**980,866**
INSURANCE—.6%		
American International Group, Inc.	24,500	**1,428,350**
INTERNET & CATALOG RETAIL—2.2%		
eBay Inc.*	97,950	3,250,961
IAC/InterActiveCorp.*	61,100	1,644,812
		4,895,773
INTERNET SOFTWARE & SERVICES—3.4%		
DealerTrack Holdings Inc.*	23,000	769,810
Google Inc. Cl. A*	6,200	4,287,176
Yahoo! Inc.*	112,200	2,609,772
		7,666,758

COMMON STOCKS—(CONT.)	SHARES	VALUE
MACHINERY—.4%		
Terex Corporation*	12,500	$ **819,625**
MEDIA—1.2%		
Comcast Corporation Special Cl. A*	96,100	1,741,332
Focus Media Holding Limited ADR*#	15,100	857,831
		2,599,163
MEDICAL PRODUCTS—1.1%		
Covidien Limited	28,100	1,244,549
Inverness Medical Innovations, Inc.*	23,600	1,325,848
		2,570,397
METALS—.7%		
Titanium Metals Corporation	23,000	608,350
Uranium One, Inc.*	112,500	1,006,515
		1,614,865
METALS & MINING—.7%		
Freeport-McMoRan Copper & Gold, Inc. Cl. B	15,699	**1,608,206**
MULTILINE RETAIL—1.1%		
Kohl's Corporation*	9,900	453,420
Macy's Inc.	22,700	587,249
Nordstrom, Inc.	17,800	653,794
Penny, (JC) Co. Inc.	15,400	677,446
		2,371,909
OIL & GAS—1.3%		
EOG Resources, Inc.	16,500	1,472,625
Exxon Mobil Corporation	16,600	1,555,254
		3,027,879
PHARMACEUTICALS—4.6%		
Abbott Laboratories	35,200	1,976,480
Allergan, Inc.	15,600	1,002,144
Barr Pharmaceuticals, Inc.*	8,200	435,420
Johnson & Johnson	33,100	2,207,770
Merck & Co. Inc.	31,900	1,853,709
Mylan Laboratories Inc.	52,700	740,962
Schering-Plough Corporation	55,200	1,470,528
Wyeth	13,200	583,308
		10,270,321
REAL ESTATE—.7%		
Digital Realty Trust, Inc.	15,400	590,898
DuPont Fabros Technology Inc.*	50,300	985,880
		1,576,778
SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT—2.3%		
Intel Corporation	69,000	1,839,540
Lam Research Corporation*	21,300	920,799
Maxim Integrated Products, Inc.	37,400	990,352
Micron Technology, Inc.*	73,600	533,600
NVIDIA Corporation*	26,200	891,324
		5,175,615
SOFTWARE—5.1%		
Electronic Arts Inc.*	13,000	759,330
Microsoft Corporation	143,250	5,099,700
Symantec Corporation*	76,650	1,237,131
Take-Two Interactive Software, Inc.*	115,500	2,130,975
TomTom NV*	28,500	2,152,513
		11,379,649
SPECIALTY RETAIL—.2%		
Urban Outfitters, Inc.*	13,800	**376,188**

COMMON STOCKS—(CONT.)	SHARES	VALUE
TEXTILES, APPAREL & LUXURY GOODS—.6%		
Coach, Inc.*	43,100	**$ 1,317,998**
TOBACCO—1.4%		
Altria Group, Inc.	41,400	**3,129,012**
UTILITIES—.6%		
Veolia Environnement ADR#	15,450	**1,405,641**
WIRELESS TELECOMMUNICATION SERVICES—.4%		
NII Holdings Inc. Cl. B*	16,400	**792,448**
TOTAL COMMON STOCKS		
(Cost $134,927,832)		**146,923,640**

CORPORATE BONDS—16.8%	PRINCIPAL AMOUNT	
AEROSPACE & DEFENSE—.7%		
L-3 Communications Holdings, 3.00%, 8/1/35	$ 650,000	788,937
Systems 2001 Asset Trust Cl. G, 6.664%, 9/15/13 (a)	741,722	763,974
		1,552,911
BEVERAGES—.3%		
PepsiCo, Inc., 4.65%, 2/15/13	580,000	**584,554**
BUILDING & CONSTRUCTION—.1%		
Martin Marietta Materials Inc., 6.25%, 5/1/37	360,000	**339,060**
CAPITAL MARKETS—.4%		
Lehman Brothers Holdings, 6.20%, 9/26/14	350,000	356,951
Morgan Stanley, 5.55%, 4/27/17	620,000	605,688
		962,639
COMMERCIAL BANKS—.6%		
Wachovia Bank Commercial Mortgage Trust, 5.342%, 12/15/43	1,400,000	**1,398,416**
DIVERSIFIED TELECOMMUNICATION SERVICES—.1%		
Qwest Corporation, 6.50%, 6/1/17(a)	300,000	**288,750**
ELECTRIC UTILITIES—1.1%		
Exelon Generation Co. LLC, 6.20%, 10/1/17	325,000	323,578
Florida Power Corp., 5.80%, 9/15/17	600,000	624,359
General Electric Capital Corp., 5.625%, 9/15/17	650,000	668,127
Virginia Electric and Power, 5.10%, 11/30/12	255,000	256,371
WPS Resources Co., 6.11%, 12/1/66	600,000	553,450
		2,425,885
ELECTRONICS—.3%		
Centerpoint Energy Transition Bond Company, 4.97%, 8/1/14	655,000	**662,398**
FINANCE—.3%		
Capital One Capital III, 7.686%, 8/15/36	650,000	529,879
Toll Brothers Finance Corp., 5.15%, 5/15/15	200,000	181,762
		711,641
FINANCIAL SERVICES—4.5%		
American Tower Trust, 5.9568%, 4/15/37 (a)†	1,450,000	1,391,710
Bear Stearns Commercial, 5.064%, 5/14/16 (a)	650,000	659,958
Bear Stearns Commercial Mortgage Securities, 4.888%, 5/14/16 (a)	650,000	658,435
Countrywide Financial Corp., 5.80%, 6/7/12	650,000	475,253
IBM International Group Capital, 5.05%, 10/22/12	1,275,000	1,300,198
JP Morgan Chase Commercial Mortgage SEC CO, 6.066%, 4/15/45	1,900,000	1,980,362
Lazard Group Senior Notes, 6.85%, 6/15/17	600,000	593,618
Morgan Stanley Capital I, 5.178%, 9/15/42	1,595,000	1,595,639
Morgan Stanley Capital I, 5.514%, 11/12/49	1,400,000	1,418,931
		10,074,104

CORPORATE BONDS—(CONT.)	PRINCIPAL AMOUNT	VALUE
FOOD PRODUCTS—.3%		
General Mills Inc., 5.70%, 2/15/17	$ 600,000	$ **593,460**
HEALTH CARE PROVIDERS & SERVICES—.5%		
CIGNA Corporation, 5.375%, 3/15/17	500,000	479,494
Coventry Health Care, Inc., 6.30%, 8/15/14	640,000	655,888
		1,135,382
INSURANCE—.8%		
Liberty Mutual Group, 7.80%, 3/15/37 (a)	1,350,000	1,204,031
XL Capital Ltd, 6.50%, 12/31/49	650,000	569,281
		1,773,312
MACHINERY—.6%		
CNH Equipment Trust, 6.05%, 9/15/10†	1,275,000	**1,275,000**
MANUFACTURING—.9%		
Cooper US Inc., 6.10%, 7/1/17	600,000	640,744
Reliance Steel & Aluminum, 6.85%, 11/15/36	1,390,000	1,383,776
		2,024,520
MEDIA—.1%		
Comcast Corporation, 6.30%, 11/15/17	275,000	**285,844**
MISCELLANEOUS—.9%		
Jefferson Valley Floating Rate, 6.9875%, 3/20/16(a)†	1,700,000	1,258,376
Rayonier TRS Holdings Inc., 3.75%, 10/15/12(a)	650,000	683,313
		1,941,689
OIL & GAS—1.1%		
Inergy LP / Inergy Financial Corp., 8.25%, 3/1/16	653,000	679,120
Tesoro Corp., 6.25%, 11/1/12	800,000	804,000
XTO Energy, Inc., 5.90%, 8/1/12	875,000	907,347
		2,390,467
OIL AND GAS EXTRACTION—.6%		
Enterprise Products Partners, 8.375%, 8/1/66	1,350,000	**1,384,286**
PHARMACEUTICALS—.9%		
AstraZeneca PLC, 5.40%, 9/15/12	1,300,000	1,345,390
Johnson & Johnson, 5.15%, 8/15/12	550,000	578,632
		1,924,022
REAL ESTATE—.3%		
HCP Inc., 6.70%, 1/30/18	650,000	**636,148**
RESTAURANTS—.3%		
Darden Restaurants Inc., 5.625%, 10/15/12	650,000	**661,367**
SOFTWARE—.7%		
Computer Associates International Inc., 6.50%, 4/15/08	310,000	310,000
Oracle Corporation, 5.25%, 1/15/16	1,300,000	1,299,553
		1,609,553
TELEPHONES—.2%		
AT&T Inc., 4.95%, 1/15/13	530,000	**533,413**
UTILITIES—.2%		
Southern Co., 5.30%, 1/15/12	525,000	**535,008**
TOTAL CORPORATE BOND		
(Cost $38,375,179)		**37,703,829**
CONVERTIBLE CORPORATE BOND—.1%		
ENERGY EQUIPMENT & SERVICES		
Transocean Inc., 1.50%, 12/15/37		
(Cost $300,000)	300,000	**327,375**

U.S. GOVERNMENT & AGENCY OBLIGATIONS—16.2%	PRINCIPAL AMOUNT	VALUE
Federal Home Loan Banks,		
5.375%, 6/8/12	$ 700,000	$ 742,135
5.375%, 5/18/16	1,500,000	1,608,027
Federal Home Loan Mortgage Corporation,		
5.60%, 10/17/13	2,100,000	2,119,606
5.50%, 10/15/14	607,407	614,995
5.50%, 1/15/15	1,427,097	1,452,466
5.75%, 6/27/16	1,170,000	1,265,531
5.50%, 10/15/16	1,192,889	1,212,279
5.50%, 12/15/20	1,107,309	1,118,900
6.00%, 8/15/29	1,880,000	1,929,412
6.00%, 3/15/36	1,468,756	1,456,025
Federal National Mortgage Association,		
5.00%, 4/1/18	1,042,254	1,045,023
5.50%, 12/25/20	1,203,734	1,218,245
5.50%, 10/25/20	1,350,000	1,363,163
6.625%, 11/15/30	508,000	628,901
6.00%, 4/25/35	1,800,000	1,837,249
Government National Mortgage Association,		
5.00%, 5/16/29	1,570,742	1,576,871
U.S. Treasury Bonds,		
7.50%, 11/15/16	2,094,000	2,629,115
5.25%, 11/15/28	1,000,000	1,100,547
U.S. Treasury Notes,		
6.00%, 8/15/09	1,000,000	1,046,016
3.50%, 11/15/09	3,100,000	3,128,337
5.00%, 8/15/11	1,685,000	1,785,574
4.625%, 8/31/11	1,800,000	1,884,939
4.25%, 8/15/13	1,200,000	1,244,156
4.25%, 11/15/14	900,000	928,759
4.50%, 2/15/16	640,000	666,350
4.75%, 8/15/17	640,000	676,151
TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS (Cost $35,283,842)		**36,278,772**
SHORT-TERM INVESTMENTS—1.2%		
U.S. AGENCY OBLIGATIONS		
Federal Home Loan Banks, 2.75%, 1/2/08 (Cost $2,724,792)	2,725,000	**2,724,792**
Total Investments (Cost $211,611,645)(b)	99.8%	223,958,408
Other Assets in Excess of Liabilities	0.2	494,238
NET ASSETS	**100.0%**	**$224,452,646**

* *Non-income producing security.*
\# *American Depositary Receipts.*
(a) *Pursuant to Securities and Exchange Commission Rule 144A, these securities may be sold prior to their maturity only to qualified institutional buyers. These securities are deemed to be liquid and represent 3.1% of the net assets of the fund except for the following: Jefferson Valley Floating Rate 6.9875%, purchased on 2/9/06 for $1,690,650; and American Tower Trust 5.9568%, purchased on 4/30/07 for $1,450,000, representing 0.6% and 0.6%, respectively, of net assets as of 12/31/07.*
(b) *At December 31, 2007, the net unrealized appreciation of investments, based on cost for federal income tax purposes of 212,196,870 amounted to $11,761,538 which consisted of aggregate gross unrealized appreciation of $23,243,376 and aggregate gross unrealized depreciation of 11,481,838.*
† *Security is valued at fair value pursuant to procedures approved by the Trustees.*

THE ALGER AMERICAN FUND
Alger American Balanced Portfolio
Statement of Assets and Liabilities *December 31, 2007*

ASSETS:	
Investments in securities, at value (identified cost)* — see accompanying schedule of investments	$ 223,958,408
Cash	289,719
Foreign currency**	289,565
Receivable for investment securities sold	5,696,076
Receivable for shares of beneficial interest sold	209,926
Dividends and interest receivable	863,434
Prepaid expenses	16,834
Total Assets	231,323,962
LIABILITIES:	
Payable for investment securities purchased	6,398,673
Payable for shares of beneficial interest redeemed	287,351
Accrued investment management fees	128,503
Accrued transfer agent fees	7,014
Accrued distribution fees	77
Accrued administrative fees	7,672
Accrued expenses	42,026
Total Liabilities	6,871,316
NET ASSETS	**$224,452,646**
Net Assets Consist of:	
Paid in capital	$ 185,811,756
Undistributed net investment income (accumulated loss)	4,473,000
Undistributed net realized gain (accumulated loss)	21,821,127
Net unrealized appreciation (depreciation) of investments	12,346,763
NET ASSETS	**$224,452,646**
Class O — Net Asset Value Per Share	**$14.61**
Class S — Net Asset Value Per Share	**$15.46**
SHARES OF BENEFICIAL INTEREST OUTSTANDING—NOTE 6	
Class O	**15,338,547**
Class S	**23,461**
*Identified Cost	$ 211,611,645

** Value of foreign currency is equal to cost.

See Notes to Financial Statements.

THE ALGER AMERICAN FUND
Alger American Balanced Portfolio
Statement of Operations
For the year ended December 31, 2007

INCOME:	
Dividends (net of foreign withholding taxes*)	$ 1,578,772
Interest	5,045,511
Total Income	6,624,283
EXPENSES:	
Management fees—Note 3(a)	1,816,865
Distribution fees—Note 3(b)	
Class S	27,460
Administrative fees—Note 3(a)	102,358
Interest on line of credit utilized—Note 5	4,056
Custodian fees	33,309
Transfer agent fees and expenses—Note 3(d)	18,731
Printing fees	43,745
Professional fees	27,096
Trustees' fees	12,234
Miscellaneous	83,937
Total Expenses	2,169,791
Less, expense reimbursements—Note 3(a)	(102,361)
Net Expenses	2,067,430
NET INVESTMENT INCOME	4,556,853
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY TRANSACTIONS:	
Net realized gain on investments	26,457,567
Net realized gain on foreign currency transactions	29,291
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	(589,653)
Net realized and unrealized gain on investments and foreign currency	25,897,205
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$30,454,058**
* Foreign withholding taxes	$ 32,301

THE ALGER AMERICAN FUND
Alger American Balanced Portfolio
Statement of Changes in Net Assets
For the year ended December 31, 2007

Net investment income	$ 4,556,853
Net realized gain on investments and foreign currency transactions	26,486,858
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	(589,653)
Net increase in net assets resulting from operations	30,454,058
Dividends and distributions to shareholders from:	
Net investment income	
Class O	(5,229,295)
Class S	—
Net realized gains	
Class O	(14,353,492)
Class S	(12,304)
Total dividends and distributions to shareholders	(19,595,091)
Decrease from shares of beneficial interest transactions:	
Class O	(39,581,578)
Class S	(32,932,549)
Net decrease from shares of beneficial interest transactions—Note 6	(72,514,127)
Total decrease	(61,655,160)
Net Assets:	
Beginning of year	286,107,806
END OF YEAR	**$224,452,646**
Undistributed net investment income	$ 4,473,000

THE ALGER AMERICAN FUND
Alger American Balanced Portfolio
Statement of Changes in Net Assets
For the year ended December 31, 2006

Net investment income	$ 5,045,810
Net realized gain on investments, foreign currency transactions	11,071,260
Net change in unrealized appreciation (depreciation) on investments, foreign currency translations	(3,415,314)
Net increase in net assets resulting from operations	12,701,756
Dividends and distributions to shareholders from:	
Net investment income	
Class O	(4,155,477)
Class S	(404,093)
Net realized gains	
Class O	(14,015,672)
Class S	(1,726,857)
Total dividends and distributions to shareholders	(20,302,099)
Decrease from shares of beneficial interest transactions:	
Class O	(30,965,017)
Class S	(11,321,983)
Net decrease from shares of beneficial interest transactions—Note 6	(42,287,000)
Total decrease	(49,887,343)
Net Assets	
Beginning of year	335,995,149
END OF YEAR	**$286,107,806**
Undistributed net investment income	$ 4,932,153

See Notes to Financial Statements.

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THE ALGER AMERICAN FUND
Alger American Balanced Portfolio
Financial Highlights for a share outstanding throughout the year

	CLASS O				
	Year ended 12/31/07	Year ended 12/31/06	Year ended 12/31/05	Year ended 12/31/04	Year ended 12/31/03
INCOME FROM INVESTMENT OPERATIONS					
Net asset value, beginning of year	$ 14.11	$ 14.44	$ 13.55	$ 13.16	$ 11.29
Net investment income	0.26(i)	0.24(i)	0.20	0.19	0.19
Net realized and unrealized gain on investments	1.41	0.39	0.92	0.40	1.94
Total from investment operations	1.67	0.63	1.12	0.59	2.13
Dividends from net investment income	(0.31)	(0.22)	(0.23)	(0.20)	(0.26)
Distributions from net realized gains	(0.86)	(0.74)	—	—	—
Total distributions	(1.17)	(0.96)	(0.23)	(0.20)	(0.26)
Net asset value, end of year	$ 14.61	$ 14.11	$ 14.44	$ 13.55	$ 13.16
Total return	12.37%	4.72%	8.42%	4.57%	19.03%
RATIOS/SUPPLEMENTAL DATA					
Net assets, end of year (000's omitted)	$224,090	$254,579	$292,412	$309,744	$308,990
Ratio of expenses to average net assets	0.80%(ii)	0.86%	0.81%	0.87%	0.87%
Ratios of net investment income (loss) to average net assets	1.79%	1.71%	1.29%	1.41%	1.60%
Portfolio turnover rate	103.77%	288.73%	218.77%	177.66%	135.67%

(i) Amount was computed based on average shares outstanding during the year.
(ii) Amount has been reduced by 0.04% due to expense reimbursement.

CLASS S				
Year ended 12/31/07	Year ended 12/31/06	Year ended 12/31/05	Year ended 12/31/04	Year ended 12/31/03
$ 14.30	$ 14.61	$ 13.71	$ 13.34	$ 11.47
0.19(i)	0.20(i)	0.14	0.17	0.23
1.83	0.40	0.96	0.39	1.90
2.02	0.60	1.10	0.56	2.13
—	(0.17)	(0.20)	(0.19)	(0.26)
(0.86)	(0.74)	—	—	—
(0.86)	(0.91)	(0.20)	(0.19)	(0.26)
$ 15.46	$ 14.30	$ 14.61	$ 13.71	$ 13.34
14.49%	4.46%	8.15%	4.27%	18.73%
$ 363	$31,528	$43,583	$44,435	$28,680
1.08%(iii)	1.11%	1.06%	1.12%	1.11%
1.48%	1.43%	1.05%	1.20%	1.25%
103.77%	288.73%	218.77%	177.66%	135.67%

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 generally 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). Securities for which such information is readily available are valued at the last reported sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded. In the absence of reported sales, securities are valued at a price within 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 for which market quotations are not readily available or for which the market quotations do not, in the opinion of the investment advisor, reflect the securities true values are valued at fair value, as determined in good faith pursuant to procedures established by the Board of Trustees.

Securities in which the Portfolio invests may be traded in markets that close before the close of the NYSE. Developments that occur between the close of the foreign markets and the close of the NYSE (normally 4:00 p.m. Eastern time) may result in adjustments to closing prices to reflect what the investment advisor, pursuant to policies established by the Board of Trustees, believes to be the fair value of these securities as of the close of the NYSE. The Portfolio may also fair value securities in other situations, for example, when a particular foreign market is closed but the Portfolio is open. Various factors may be reviewed in order to make a good faith determination of a security's fair value. These factors may include, but are not limited to, the type and cost of the security; contractual or legal restrictions on resale of the security; relevant financial or business developments of the issuer; actively traded similar or related securities; conversion or exchange rights on the security; related corporate actions; and changes in overall market conditions.

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

In September 2006, the Financial Accounting Standards Board (FASB) issued *Statement on Financial Accounting Standards No. 157, "Fair Value Measurements"* (FAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2007 the Portfolio does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

(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) Foreign Currency Transactions: The books and records of the Portfolio are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the prevailing rates of exchange on the valuation date. Purchases and sales of investment securities and income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of such transactions.

Net realized gains and losses on foreign currency transactions represent net gains and losses from the disposition of foreign currencies, currency gains and losses realized between the trade dates and settlement dates of security transactions, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The effects of changes in foreign currency exchange rates on investments in securities are included in realized and unrealized gain or loss on investments in the Statements of Operations.

(d) 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.

(e) Option Contracts: When a Portfolio writes an option, an amount equal to the premium received by the Portfolio is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Portfolio on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a written call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Portfolio has realized a gain or loss. If a written put option is exercised, the premium reduces the cost basis of the securities purchased by the Portfolio. The Portfolio as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

The Portfolio may also purchase put and call options. Purchasing call and put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included in the Portfolio's Statement of Assets and Liabilities as an investment and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying security to determine the realized gain or loss.

(f) Lending of Portfolio Securities: The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets. 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 Portfolios and any required additional collateral is delivered to the Portfolios on the next business day. There were no securities on loan during the year ended December 31, 2007.

(g) 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.

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, premium/discount of debt securities, realized gain loss from foreign currency transactions, and realized gains from redemptions in kind, if any. 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.

(h) Federal Income Taxes: It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, of the Portfolio to its respective shareholders. Therefore, no federal income tax provision is required. The Portfolio is treated as a separate entity for the purpose of determining such compliance.

The Fund has adopted the Financial Accounting Standards Board Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. As result of FIN 48 adoption, there were no positions that required a tax benefit or expense to be recorded in the current year.

(i) 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.

(j) 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.

(k) Other: These financial statements have been prepared in accordance with U.S. generally accepted accounting principles using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates.

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

(a) Investment Advisory and Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement and Administration 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 following annual rates:

Advisory Fee	Administration Fee
.710%	.04%

As part of the settlement with the New York State Attorney General (see Note 8—Litigation) Alger Management has agreed to reduce its advisory fee to 0.67% for Portfolio for the period from December 1, 2006 through November 30, 2011.

(b) Distribution Fees: Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of each Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor"), a fee at the annual rate of .25% of the respective average daily net assets of the Class S shares of the designated 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, 2007, the Portfolio paid the Distributor $205,486, in connection with securities transactions.

(d) Shareholder Administrative Fees: The Fund has entered into a shareholder administrative service agreement with Alger Shareholder Services, Inc. ("Alger Services") to compensate Alger Services on a per account basis for its liaison and administrative oversight of Boston Financial Data Services, Inc., the transfer agent for the Fund ("BFDS") and other related services. During the year ended December 31, 2007, the Portfolio incurred fees of $83 for these services provided by Alger Services which are included in transfer agent fees and expenses.

(e) Other: Certain trustees and officers of the Fund are directors and officers of Alger Management, the Distributor and Alger Services. Each Portfolio pays each Trustee who is not affiliated with the Advisor or its affiliates $500 for each meeting attended, to a maximum of $2,000 per annum. The Chairman of the Board of Trustees receives an additional annual fee of $10,000 which is paid, pro rata, by all portfolios managed by Alger Management. Additionally, each member of the audit committee receives an additional $50 from each Portfolio for each audit committee meeting attended, to a maximum of $200 per annum.

NOTE 4 — Securities Transactions:

Purchases and sales of securities, other than short-term securities, for the year ended December 31, 2007, were $259,322,661 and $342,907,838, respectively.

NOTE 5 — Lines of Credit:

The Fund participates in $50 million committed lines of credits with other mutual funds managed by Alger Management. All Borrowings have variable interest rates and are payable on demand.

The Portfolio borrows under such lines of credit exclusively for temporary or emergency purposes. For the year ended December 31, 2007, the Portfolio had the following borrowings:

AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
$71,227	5.20%

NOTE 6 — Share Capital:

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value which are divided into six series. The Portfolio is divided into two separate classes.

During the year ended December 31, 2007, transactions of shares of beneficial interest were as follows:

	SHARES	AMOUNT
AMERICAN BALANCED PORTFOLIO:		
Class O:		
Shares sold	864,949	$ 12,525,830
Dividends reinvested	1,420,072	19,582,787
Shares redeemed	(4,987,896)	(71,690,195)
Net decrease	**(2,702,875)**	**$(39,581,578)**
Class S:		
Shares sold	30,393	$ 448,331
Dividends reinvested	842	12,304
Shares redeemed	(2,212,864)	(33,393,184)
Net decrease	**(2,181,629)**	**$(32,932,549)**

During the year ended December 31, 2006, transactions of shares of beneficial interest were as follows:

	SHARES	AMOUNT
Class O:		
Shares sold	956,880	$ 13,408,352
Dividends reinvested	1,368,309	18,171,149
Shares redeemed	(4,527,182)	(62,544,518)
Net decrease	**(2,201,993)**	**$ (30,965,017)**
Class S:		
Shares sold	98,708	$ 1,419,142
Dividends reinvested	158,082	2,130,950
Shares redeemed	(1,034,385)	(14,872,075)
Net decrease	**(777,595)**	**$ (11,321,983)**

NOTE 7 — Tax Character of Distributions to Shareholders:

The tax character of distributions paid during the year ended December 31, 2007 and the year ended December 31, 2006 were as follows:

	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006
Distributions paid from:		
Ordinary Income	$ 18,216,201	$ 14,869,576
Long-Term capital gains	1,378,890	5,432,523
Total distributions paid	**$19,595,091**	**$20,302,099**

As of December 31, 2007, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	$24,369,113
Undistributed long-term gain	2,510,243
Unrealized appreciation (depreciation)	11,761,538

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is determined annually and is attributable primarily to the tax deferral of losses on wash sales and straddles, the tax treatment of premium/discount on debt securities, realization of unrealized appreciation of Passive Foreign Investment Companies and return of capital from Real Estate Investment Trust investments. Tax basis unrealized appreciation as of December 31, 2007, does not reflect any potential adjustments subsequent to December 31, 2006.

NOTE 8 — Litigation:

Alger Management has responded to inquiries, document requests and/or subpoenas from various regulatory authorities, in connection with their investigations of practices in the mutual fund industry identified as "market timing" and "late trading." On October 11, 2006, Alger Management, Alger Inc. and Alger Shareholder Services, Inc. executed an Assurance of Discontinuance with the Office of the New York State Attorney General ("NYAG"). On January 18, 2007 the Securities and Exchange Commission issued an order implementing settlements reached with Alger Management and Alger Inc. As part of the settlements with the Commission and the NYAG, without admitting or denying liability, the firms paid $30 million to reimburse fund shareholders and a fine of $10 million; and agreed to certain other remedial measures including a reduction in management fees of $1 million per year for five years. The entire $40 million and fee reduction will be available for the benefit of investors. Alger Management has advised the Funds that the settlement has not adversely affected the operations of Alger Management, Alger Inc. or their affiliates, or adversely affect their ability to continue to provide services to the Funds.

On August 31, 2005, the West Virginia Securities Commissioner (the "WVSC") in an ex parte Summary Order to Cease and Desist and Notice of Right to Hearing concluded that Alger Management and Alger Inc. had violated the West Virginia Uniform Securities Act (the "WVUSA"), and ordered Alger Management and Alger Inc. to cease and desist from further violations of the WVUSA by engaging in the market-timing related conduct described in the order. The ex parte order provided notice of their right to a hearing with respect to the violations of law asserted by the WVSC. Other firms unaffiliated with Alger Management were served with similar orders. Alger Management and Alger Inc. intend to request a hearing for the purpose of seeking to vacate or modify the order.

In addition, in 2003 and 2004 several purported class actions and shareholder derivative suits were filed against various parties in the mutual fund industry, including Alger Management, certain mutual funds managed by Alger Management (the "Alger Mutual Funds"), and certain current and former Alger Mutual Fund trustees and officers, alleging wrongful conduct related to market-timing and late-trading by mutual fund shareholders. These cases were transferred to the U.S. District Court of Maryland by the Judicial Panel on Multidistrict Litigation for consolidated pre-trial proceedings. In September 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). In April 2005, a civil lawsuit involving similar allegations was filed by the West Virginia Attorney General and also transferred to the Maryland District Court, but such lawsuit has since been withdrawn.

The Derivative Complaint alleged (i) violations, by Alger Management and, depending on the specific offense alleged, by Alger Inc. and/or the fund trustee defendants, of Sections 36(a), 36(b), 47, and 48 of the Investment Company Act of 1940, as amended, (the "Investment Company Act") and of Sections 206 and 215 of the Investment Advisers Act of 1940, as amended, breach of fiduciary duty, and breach of contract, (ii) various offenses by other third-party defendants, and (iii) unjust enrichment by all the named defendants. The Class Action Complaint alleged, in addition to the offenses listed above, (i) violations, by Alger Management, Alger Inc., their affiliates, the funds named as defendants, including the Funds, and the current and former fund trustees and officers, of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, as amended, Sections 10(b) (and Rule 10b-5 thereunder) and 20(a) of the Securities Exchange Act of 1934, as amended, (the "1934 Act"), and Section 34(b) of the Investment Company Act, (ii) breach of contract by the funds named as defendants, and (iii) unjust enrichment of the defendants.

Motions to dismiss the Class Action Complaint and the Derivative Complaint were subsequently filed.

As a result of a series of court orders, all claims in the Class Action Complaint and the Derivative Complaint have been dismissed, other than claims under the 1934 Act against Alger Management, Alger Inc., Alger Associates, Inc. and Alger Shareholder Services, Inc., and certain present and former members of the senior management of Alger Management and/or Alger Inc., and claims under Section 36(b) of the Investment Company Act against Alger Management, Alger Inc., Alger Associates, Inc. and Alger Shareholder Services, Inc.

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) (the "Fund") as of December 31, 2007, 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 five 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.

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. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included 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 accounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with custodians 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 Alger American Balanced Portfolio at December 31, 2007, 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 five years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 11, 2008

Shareholder Expense Example

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

The example below is based on an investment of $1,000 invested at the beginning of the six-month period starting July 1, 2007 and ending December 31, 2007.

Actual Expenses

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

Hypothetical Example for Comparison Purposes

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

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

		Beginning Account Value July 1, 2007	Ending Account Value December 31, 2007	Expenses Paid During the Period July 1, 2007 to December 31, 2007(b)	Ratio of Expenses to Average Net Assets For the Six Months Ended December 31, 2007(c)
Class O	Actual	$1,000.00	$1,051.80	$4.14	0.80%
	Hypothetical(a)	1,000.00	1,021.17	4.08	0.80
Class S	Actual	1,000.00	1,051.00	5.58	1.08
	Hypothetical(a)	1,000.00	1,019.76	5.50	1.08

(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 184/365 (to reflect the one-half year period).
(c) Annualized.

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, The Spectra Funds, The Alger Fund, 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	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
INTERESTED TRUSTEES			
Hilary M. Alger, CFA (45)	Director of Development, Pennsylvania Ballet since 2004; Associate Director of Development, College of Arts and Sciences and Graduate School, University of Virginia 1999-2003.	2003	27
NON-INTERESTED TRUSTEES			
Charles F. Baird, Jr. (54)	Managing Partner of North Castle Partners, a private equity securities group; Chairman of Leiner Health Products, Enzymatic Therapy and Caleel & Hayden (skincare business); former Chairman of Elizabeth Arden Day Spas, Naked Juice, Equinox (fitness company) and EAS (manufacturer of nutritional products). Formerly Managing Director of AEA Investors, Inc.	2007	27
Roger P. Cheever (62)	Senior Associate Dean of Development, Harvard University. Formerly Deputy Director of the Harvard College Fund.	2007	27
Lester L. Colbert, Jr. (73)	Private investor since 1988. Formerly, Chairman of the Board, President and Chief Executive Officer of Xidex Corporation (manufacturer of computer information media).	2007	27
Stephen E. O'Neil (75)	Attorney; Private investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1988	27
David Rosenberg (45)	Associate Professor of Law since January 2006 (Assistant Professor 2000-2005), Zicklin School of Business, Baruch College, City University of New York.	2007	27

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
NON-INTERESTED TRUSTEES (Continued)			
Nathan E. Saint-Amand, M.D. (69)	Medical doctor in private practice; Member of the Board of the Manhattan Institute (non-profit policy research) since 1988. Formerly Co-Chairman, Special Projects Committee, Memorial Sloan Kettering.	1988	27
OFFICERS			
Daniel C. Chung (45) President	President since September 2003 and Chief Investment Officer and Director since 2001 of Alger Management; President since 2003 and Director since 2001 of Alger Associates, Fred Alger International Advisory S.A. (Director since 2003) and Analysts Resources, Inc. (“ARI”). Formerly, Director of the Fund from 2001-2006.	2001	N/A
Hal Liebes (43) Secretary	Executive Vice President, Director, Chief Legal Officer, Chief Operating Officer, and Secretary of Fred Alger & Company, Incorporated and Alger Management; Director since 2006 of Alger Associates, and ARI. Formerly Chief Compliance Officer of AMVESCAP PLC from 2004-2005; U.S. General Counsel from 1994-2002 and Global General Counsel from 2002-2004 of Credit Suisse Asset Management.	2005	N/A
Michael D. Martins (42) Treasurer	Senior Vice President of Alger Management; Assistant Treasurer from 2005 to 2006 of the Fund. Formerly Vice President, Brown Brothers Harriman & Co. from 1997-2004.	2005	N/A
Lisa A. Moss (42) Assistant Secretary	Vice President and Assistant General Counsel of Alger Management since June 2006. Formerly, Director of Merrill Lynch Investment Managers, L.P. from 2005-2006; Assistant General Counsel of AIM Management, Inc. from 1995-2005.	2006	N/A

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
OFFICERS (Continued)			
Barry J. Mullen (54) Chief Compliance Officer	Senior Vice President and Director of Compliance of Alger Management since May 2006. Formerly, Director of BlackRock, Inc. from 2004-2006; Vice President of J.P. Morgan Investment Management from 1996-2004.	2006	N/A
Anthony S. Caputo (52) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President	2007	N/A
Sergio M. Pavone (46) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President	2007	N/A

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) 254-3797.

Investment Management Agreement Renewal (Unaudited)

At an in-person meeting held on September 12, 2007, the Trustees, including the Independent Trustees, unanimously approved renewal of the Investment Advisory Agreement between the Fund and Alger Management (the "Agreement"). The Independent Trustees were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of Alger Management.

In evaluating the Agreement, the Trustees drew on materials that they had requested and which were provided to them in advance of the meeting by Alger Management and by counsel. The materials covered, among other matters, (i) the nature, extent and quality of the services provided by Alger Management under the Agreement, (ii) the investment performance of the Fund's portfolios (each a "Portfolio"), (iii) the costs to Alger Management of its services and the profits realized by Alger Management and Alger Inc. from their relationship with the Fund, and (iv) the extent to which economies of scale would be realized if and as the Portfolios grow and whether the fee levels in the Agreement reflect these economies of scale. These materials included an analysis of the Funds and Alger Management's services by Callan Associates Inc. ("Callan"), an independent consulting firm whose specialties include assistance to fund trustees and directors in their review of advisory contracts pursuant to section 15(c) of the Investment Company Act of 1940. At the meeting, senior Callan personnel provided a presentation to the Trustees based on the Callan materials.

In deciding whether to approve renewal of the Agreement, the Trustees considered various factors, including those enumerated above. They also considered other direct and indirect benefits to Alger Management and its affiliates from their relationship with the Fund.

Nature, Extent and Quality of Services. In considering the nature, extent and quality of the services provided by Alger Management pursuant to the Agreement, the Trustees relied on their prior experience as Trustees of the Fund, their familiarity with the personnel and resources of Alger Management and its affiliates, and the materials provided at the meeting. They noted that under the Agreement Alger Management is responsible for managing the investment operations of the Portfolios. They also noted that administrative, compliance, reporting and accounting services necessary for the conduct of the Fund's affairs are provided under the separate Administration Agreement. The Trustees reviewed the background and experience of Alger Management's senior investment management personnel, including the individuals currently responsible for the investment operations of the Portfolios. They also considered the resources, operational structures and practices of Alger

Management in managing each Portfolio, as well as Alger Management's overall investment management business. They noted especially Alger Management's history of expertise in managing portfolios of "growth" stocks and also took notice of the ability of the manager of the fixed-income portion of the Balanced Portfolio to manage fixed-income instruments across the credit and credit quality spectra. The Trustees concluded that Alger Management's experience, resources and strength in the areas of importance to the Funds are considerable. The Trustees considered the level and depth of Alger Management's ability to execute portfolio transactions to effect investment decisions, including those through Alger Inc. The Trustees also considered the ongoing enhancements to the control and compliance environment at Alger Management and within the Fund.

Investment Performance of the Funds. Drawing upon information provided at the meeting by Alger Management as well as Callan and upon reports provided to the Trustees by Alger Management throughout the preceding year, the Trustees noted that the performance of four of the equity Portfolios for the year-to-date (YTD) (at 8/31/07), 1-year and 3-year periods was excellent, with each of the Portfolios placing well above the median relative to its peers and in most cases above its benchmark as well. In addition, the performance of both the Balanced Portfolio and the Income & Growth Portfolio had improved markedly relative to those Portfolios' peers for the YTD and 1-year periods against a median performance for the 3-year period.

Fund Fees and Expense Ratios; Profitability to Alger Management and its Affiliates. The Trustees considered the profitability of the Investment Advisory Agreement to Alger Management and its affiliates, and the methodology used by Alger Management in determining such profitability. The Trustees reviewed previously-provided data on each Portfolio's profitability to Alger Management and its affiliates for the year ended June 30, 2007. In addition, the Trustees reviewed each Portfolio's management fee and expense ratio and compared them with a group of comparable funds. In order to assist the Trustees in this comparison, Callan had provided the Trustees with comparative information with respect to fees paid, and expense ratios incurred, by similar funds. That information indicated that while fees and expense ratios were at or below the median, the fees and expense ratios of the Portfolio (S Shares) were above the median. In the latter cases, the Trustees determined that such information should be taken into account in weighing the size of the fee against the nature, extent and quality of the services provided. After discussing with representatives of the Adviser and Callan the methodologies used in computing the costs that formed the bases of the profitability calculations, the Trustees turned to the profitability data provided. After analysis and discussion, they concluded that, to the extent that Alger Management's and its affiliates' relationships with the Portfolios had been profitable to either or both of those entities in the case of one or more Portfolios, the profit margin in each case was not unacceptable.

Economies of Scale. On the basis of their discussions with management and their analysis of information provided at the meeting, the Trustees determined that the nature of the Portfolios and their operations is such that Alger Management is likely to realize economies of scale in the management of each Portfolio at some point as (and if) it grows in size, but that adoption of breakpoints in one or more of the advisory fees, while possibly appropriate at a later date, could await further analysis of the sources and potential scale of the economies and the fee structure that would best reflect them. Accordingly, the Trustees requested that Alger Management address this topic with the Trustees at future meetings.

Other Benefits to Alger Management. The Trustees considered whether Alger Management benefits in other ways from its relationship with the Fund. They noted that Alger Management maintains soft-dollar arrangements in connection with certain of the Portfolios' brokerage transactions, reports on which are regularly supplied to the Trustees at their quarterly meetings. The Trustees also noted that Alger Management receives fees from the Portfolios under the Administration Agreement, that Alger, Inc. provides a substantial portion of the Portfolios' equity brokerage and that Alger Shareholder Services, Inc. receives fees from the Fund under a shareholder services agreement. The Trustees had been provided with information regarding, and had considered, the administration fee, brokerage and shareholder services fee benefits in connection with their review of the profitability to Alger Management and its affiliates of their relationships with the Fund. As to other benefits received, the Trustees decided that none were so significant as to render Alger Management's fees excessive.

Conclusions and Determinations. At the conclusion of these discussions, each of the Independent Trustees expressed the opinion that he had been furnished with sufficient information to make an informed business decision with respect to renewal of the Investment Advisory Agreement. Based on its discussions and considerations as described above, the Board made the following conclusions and determinations:

> The Board concluded that the nature, extent and quality of the services provided to each Portfolio by Alger Management are adequate and appropriate.
>
> The Board determined that the performance of each of the Portfolios had been satisfactory.

The Board concluded that each advisory fee paid to Alger Management was reasonable in light of comparative performance and expense and advisory fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by Alger Management and its affiliates from the relationship with the Portfolio.

The Board determined that there were not at this time significant economies of scale to be realized by Alger Management in managing the Portfolios' assets but that, to the extent that material economies of scale should be realized in the future, the Board would seek to ensure that they were shared with the applicable Portfolio.

The Board considered these conclusions and determinations and, without any one factor being dispositive, determined with respect to each Portfolio that renewal of the Investment Advisory Agreement was in the best interests of the Portfolio and its shareholders.

Proxy Voting Policies

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

Fund Holdings

The Portfolio's most recent month end portfolio holdings are available approximately sixty days after month end on the Fund's website at www.alger.com. The Portfolios also 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 SEC's website at www.sec.gov or may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. A copy of the most recent quarterly holdings may also be obtained from the Fund by calling (800) 992-3863.

Alger American Leveraged AllCap Portfolio

THE ALGER AMERICAN FUND

A pooled funding vehicle for:

- **variable annuity contracts**
- **variable life insurance policies**
- **qualified pension plans**
- **qualified retirement plans**

ANNUAL REPORT

December 31, 2007

ALGER

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THE ALGER AMERICAN FUND

Dear Shareholders, *January 29, 2008*

Roller coaster: it's an apt metaphor for the past fiscal year. With the sharp run-up in the stock market through June, followed by the near-meltdown of those parts of the financial sector exposed to housing and mortgages, there were times when the financial markets felt like a long weekend at Six Flags Great Adventure. Even investors with cast-iron stomachs were wondering: why did this happen? How long can it continue? And is there an upside?

Once again, perceptions were more dramatic than realities. For all the agita in the markets, the indices posted solid gains in the United States, not to mention throughout the world, and the day-to-day volatility was ultimately less than the sum of its parts. Economic growth chugged along and most companies showed decent if not downright good earnings growth — with the notable and glaring exception of the financial sector in the fourth quarter of 2007. In short, there was noise, drama and even smoke, but not much actual fire. Or back to the initial metaphor, the roller coaster ride was full of sharp turns, shrieks, and moments of fear and anticipation, but the car stayed on the tracks, the ride ended safely, and most people even made some progress along the way.

Black Friday Revisited

In the financial markets it was a year of milestones and anniversaries. Both the S&P 500 Index[i] and the Dow Jones Industrial Average[ii] reached new heights during the year, with the Dow breaking 13,000 and then 14,000 twice. But October 19, 2007 was a more somber milestone: the 20th anniversary of Black Friday on Wall Street. In the days before, pundits didn't hesitate to predict a "curse" coming back to haunt the markets. (Sounds ridiculous, but a surprising number of articles had that *exact* headline the next morning.) Sure enough, the Dow tumbled by 247 points, but that was nothing compared to that one-day 508-point loss in 1987, especially in percentage terms. In today's market the Dow would have had to shed about 3,100 points in one day to be comparable to the crash of '87.

Three times this past year U.S. markets fell sharply. On February 27, the Dow lost 314 points, with a total decline of 736 points from February 20 to March 5. The sell-off was triggered by rumors of a possible Chinese government squeeze on credit. Then, the Dow climbed a total of 1,910 points over the following four months to register a new record of 14,000 on July 19. Through the end of July, the markets were turbulent as the sub-prime mortgage debacle unfolded. From July 26 through August 6, the Dow roller coaster went up and down with dizzying speed, with some days showing losses as great as 268 points while others showed gains of up to 169 points. But the true second phase of the market sell-off happened during the headiest days of the credit crunch — from August 8 to August 16 — with the Dow experiencing a total loss of 812 points. That was followed by a September rally that recouped most of the lost ground.

The third sell-off period occurred during the final weeks of the year, and lasted from October 11 through November 26 — when the Dow shed a total of 1,400 points, as the sub-prime mess erupted into a full-blown credit crisis involving banks and financial institutions. Even the tech sector — one of the strongest performers for the year — saw a steep pullback at the end of October. However, after each sell-off, the markets rebounded, and in some cases — as in the February drop — the markets moved into a long period of steady uphill climb.

To push our roller coaster metaphor even further — the number of extreme *single day swings* was even greater than the sell-off periods. In 2007, the Dow saw no less than eight days of single-day losses of more than 200 points (the largest being 314 points) and six days of gains of more than 169 points (with the largest being 319 points). Most telling, perhaps, is that on three separate days (August 16, 17, and November 8) the day's close showed little movement, yet *during the day* the Dow had swooned more than 442 points. On November 8, for example, the Dow fell 462 points before climbing back to a 64 point loss at day's end.

We believe the year's turbulence emphasizes a trend that has become more noticeable with each passing year: high-levels of short-term volatility and economic concerns unfolding against a backdrop of unusual global economic stability. The fact that so many people felt so unsettled even while the markets remained up for the year should tell us something about the disconnect between how people feel and what has actually been happening.

Global Growth and Earnings

Fifty years ago it was perfectly fair to say "as goes the U.S. economy, so go U.S. companies and their stocks." Today that no longer holds true. Earnings this year indicate that the trajectory of companies is different and more positive than that of countries and that the United States is no longer the sole guide to the health of U.S. firms. While U.S. GDP grew a paltry 0.6% in the first quarter of 2007, the companies of the S&P 500 Index registered nearly 8% growth. And, while economic data still matters, it is no longer a good idea to use the U.S. economy as an automatic proxy for how U.S. companies, or their stock prices, will perform.

The world economy has grown at a 4% annual pace for the past several years; according to BCA research, this has been the strongest expansion phase since 1960. And earnings for many companies — especially innovative growth companies — continue to benefit from very strong international growth, which has begun to "decouple" from dependence on the U.S. economy. One consumer company recently reported 2% growth in the U.S. market and 17% growth abroad with more than 50% growth in China alone. In fact, global equity markets have been on a tear and many U.S.-listed companies are benefiting from the same global growth trends. Especially for the larger companies of the S&P 500, the U.S. is simply one market, albeit a large and vital aspect of their global business model.

The weakness of the U.S. dollar is yet one more factor that has benefited U.S. companies doing business outside of the United States. Corporate profits have been boosted by a continuing weak dollar which inflates the reported dollar profits of U.S.-listed companies.

At the same time, global interest rates have compressed, with both short-term and long-term rates as well as corporate and government rates converging between 4% and 5%. One negative consequence of that compression is that many fixed-income managers have taken oversize risks in an attempt to generate above average returns, and the consequences of those risks has been nothing short of a debacle for many funds and for financial institutions exposed to housing and mortgage-backed securities.

The Sub-Prime Mortgage Mess

In August, the mortgage mess transmogrified into a global financial panic that seemed on the verge of draining not just excess liquidity out of the system but all liquidity. If that had happened — and there was some risk that it was about to — financial systems would have ground to a halt. Short-term liquidity in the form of commercial paper is to the financial system what water is to the body. Without it, all bets are — literally — off.

What threatened the financial system was that the leveraged exposure was substantially greater than the actual size of defaults or outstanding low-credit loans. Wall Street didn't simply "securitize" loans by slicing and dicing them. It buried them in packages of other loans and then bundled them with higher credit loans. When mortgage defaults began to rise on the lower end of the spectrum, many Wall Street institutions and hedge funds realized that they didn't really know which of these various loan derivatives were good and which were bad. The result was that trading in almost anything mortgage-related froze in the middle of July, creating a domino effect. Lenders and mortgage brokers tightened lending standards and banks demanded more collateral, not just for home loans, but for credit lines to hedge funds and private equity firms. Suddenly, getting a loan of any sort went from incredibly easy to astonishingly difficult.

That crisis was — at least temporarily — averted by the action of the Federal Reserve which cut the Fed funds rate by 50 basis points (one-half a percentage point) to 4.75% in mid-September, and followed up with additional quarter point cuts on October 31, and December 11 (and, as of this writing, an additional "emergency rate cut" of 75 basis points on January 11, 2008 to effectively mitigate stress from that weekend's global market crisis). These rate cuts were a sometimes welcome and perhaps essential step in preventing the mortgage mess from imperiling the financial system. Whether or not the cuts will have any lasting impact, or if they were merely a demonstration that the Fed could and would act if necessary, remains to be seen.

Our conclusion: it will continue to be a painful and dislocating period for real estate and for millions of people exposed to its descent. Low-end consumers, and many in the middle, will feel the pain. As adjustable-rate mortgages reset, there will be substantial numbers of foreclosures. Some Wall Street investment firms will lose money; many already have. But we do not believe that the global financial system is in jeopardy, nor do we think that the housing bust will severely dent corporate profits in those sectors of the economy not directly exposed to housing and mortgage-backed financial instruments. One unintended consequence is that stocks may ultimately benefit from the meltdown if investors find themselves turning to equities as a safe haven.

Portfolio Matters

The Alger American Leveraged AllCap Portfolio gained 33.53% for the year ending December 31, 2007, compared to the Russell 3000 Growth Index[iii] return of 11.39%. Information Technology represented an average weight of 33.33% of the Portfolio's holdings, an overweight to the benchmark and outperformed. Strong IT performers included MEMC Electronic Materials, Inc., Google, Inc., and Apple, Inc.

Energy stocks accounted for an average weight of 8.20% of the Portfolio, an overweight to the benchmark and outperformed with prominent performances from companies including Petrobank Energy & Resources, Ltd., Valero Energy Corp., and Weatherford International Ltd., a provider of oilfield services equipment.

In the Health Care sector, the Portfolio was underweight the benchmark at 13.78%, but outperformed due to substantial returns by Onyx Pharmaceuticals, Inc., United Therapeutics Corp., and Intuitive Surgical, Inc.

The Portfolio's industrial holdings, at an average weight of 8.42%, were underweight to the benchmark and outperformed. Strong performers included Armor Holdings, Inc., BE Aerospace, Inc., and General Dynamics, Corp.

The Portfolio saw minor detractors across sectors from Rambus, Inc., a provider of high-speed interface technology, Accor SA, one of the world's largest hotel groups, and NutriSystem, Inc.

In Summary

Wall Street tends to react to sudden changes in the status quo with apocalyptic rhetoric. Though we don't take the psychology of the markets lightly, proprietary indicators that we have used for many decades suggest that while these roller coaster movements may continue, the fundamental picture for many growth companies remains positive.

With continued global expansion, the unwinding of the mortgage mess and what likely will be a hectic and turbulent U.S. election season, 2008 looks to be unsettled in the equity markets. Swoons which came fast and furious in 2007 may happen even faster and be even more furious.

But the fundamentals of the economy, of companies in general, and of the domestic and global equity markets do not seem to us either weak or overvalued. As bottom-up stock pickers, we believe these market sell-offs offer excellent opportunities to add or increase positions in growth companies whose opportunities are, in fact, just beginning.

Respectfully submitted,

Daniel C. Chung
Chief Investment Officer

Zachary Karabell
Chief Economist

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[i] Standard & Poor's 500 Index is an index of the 500 largest and most profitable companies in the United States.

[ii] The Dow Jones Industrial Average is an index of common stocks comprised of major industrial companies and assumes reinvestment of dividends. It is frequently used as a general measure of stock market performance.

[iii] The Russell 3000 Growth Index is an unmanaged index designed to measure the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values.

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

This report and the financial statements contained herein are submitted for the general information of shareholders of the Fund. This report is not authorized for distribution to prospective investors in the Fund unless proceeded or accompanied by an effective prospectus for the Fund. Fund performance returns represent the annual period return of Class O shares prior to the deduction of any sales charges. **The performance data quoted represents past performance, which is not an indication or guarantee of future results.** The investment return and principal value of an investment in a portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.

The views and opinions of the Fund's management in this report are as of the date of the shareholder letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Any securities mentioned should be considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a portfolio. Please refer to the Schedule of Investments for the portfolio which is included in this report for a complete list of portfolio holdings as of December 31, 2007. Securities mentioned in the shareholder letter, if not found in the Schedule of Investments, were held by the Fund during the Fund's fiscal year.

A Word About Risk

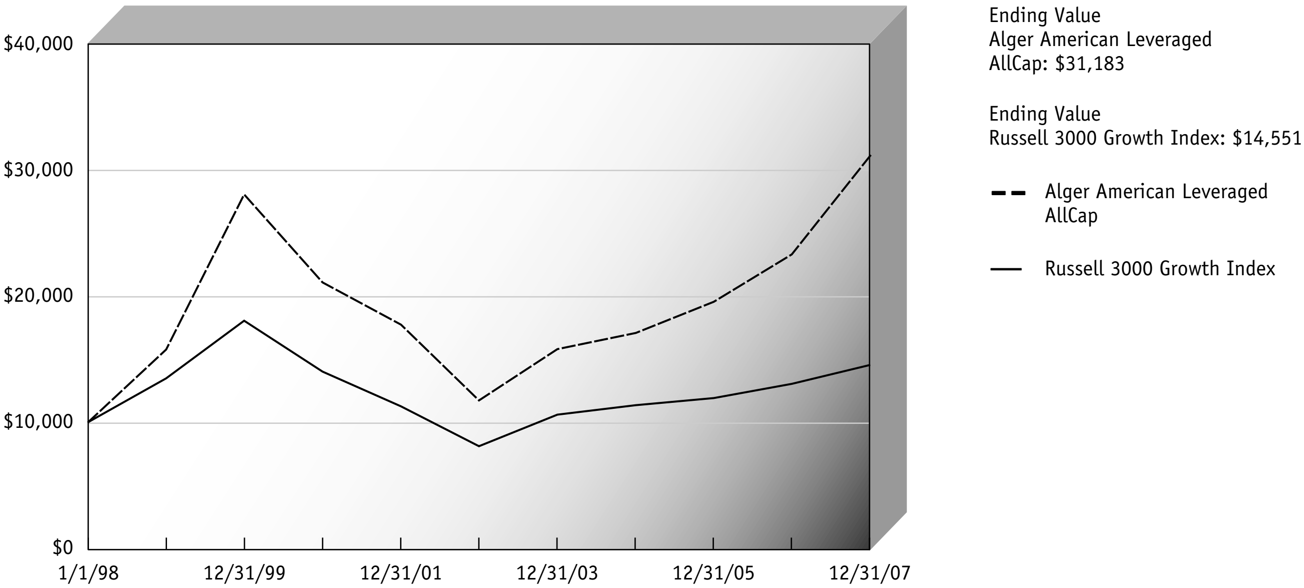
Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments. Stocks of small- and mid-sized companies are subject to greater risk than stocks of larger, more established companies owing to such factors as limited liquidity, inexperienced management, and limited financial resources. Portfolios that participate in leveraging, such as the Leveraged AllCap Portfolio, are subject to the risk that borrowing money to leverage will exceed the returns for securities purchased or that the securities purchased may actually go down in value; thus, the portfolio's net asset value can decrease more quickly than if the portfolio had not borrowed. For a more detailed discussion of the risks associated with a Portfolio, please see the Portfolio's Prospectus.

Mutual fund portfolios are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by banks, and are subject to investment risks, including possible loss of principal amount invested.

Before investing, carefully consider the Portfolio's investment objective, risks and charges and expenses. The Fund's prospectus contains this and other information about the Fund, and may be obtained by asking your financial advisor, calling us at (800) 992-3863, or visiting our website at www.alger.com, or contacting the Fund's distributor, Fred Alger & Company, Incorporated, 111 Fifth Avenue, New York 10003. Member NYSE, SIPC. Read the prospectus carefully before investing.

HYPOTHETICAL $10,000 INVESTMENT

— 10 years ended December 31, 2007



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 for the ten years ended December 31, 2007. 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, 2007

AVERAGE ANNUAL TOTAL RETURNS				
	1 YEAR	5 YEARS	10 YEARS	SINCE INCEPTION
CLASS O (INCEPTION 1/25/95)	33.53%	21.58%	12.04%	16.59%
Russell 3000 Growth Index	11.39%	12.42%	3.82%	9.07%
CLASS S (INCEPTION 5/1/02)	33.20%	21.24%	—	12.16%
Russell 3000 Growth Index	11.39%	12.42%	—	6.60%

The performance data quoted represent past performance, which is not an indication or a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. For performance current to the most recent month-end, visit us at www.alger.com, or call us at (800) 254-3797.

Returns indicated assume reinvestment of all distributions, no transaction costs or taxes, and are net of management fees and fund operating expenses only. Total return does not include deductions at the portfolio or contract level for cost of insurance charges, premium load, administrative charges, mortality and expense risk charges or other charges that may be incurred under the variable annuity contract, variable life insurance plan or retirement plan for which the portfolio serves as an underlying investment vehicle. If these charges were deducted, the total return figures would be lower. Please refer to the variable insurance product or retirement plan disclosure documents for any additional applicable expenses. Investing in the stock market involves gains and losses and may not be suitable for all investors.

THE ALGER AMERICAN FUND
Alger American Leveraged AllCap Portfolio
Portfolio Summary*
December 31, 2007 *(Unaudited)*

SECTORS

Consumer Discretionary	15.1%
Consumer Staples	4.8
Energy	9.2
Financials	8.3
Health Care	12.6
Industrials	9.5
Information Technology	32.7
Materials	2.5
Telecommunication Services	1.2
Utilities	0.0
Cash and Net Other Assets	4.1
	100.0%

** Based on net assets for the Portfolio.*

COMMON STOCKS—95.5%	SHARES	VALUE
AEROSPACE & DEFENSE—3.4%		
Boeing Company	63,423	$ 5,546,976
General Dynamics Corporation	103,677	9,226,216
		14,773,192
APPAREL—1.0%		
American Apparel Inc.*	300,500	**4,507,500**
AUTO COMPONENTS—.3%		
LKQ Corporation*	65,800	**1,383,116**
AUTOMOTIVE EQUIPMENT & SERVICES—.9%		
Cummins Inc.	30,600	**3,897,522**
BIOTECHNOLOGY—2.5%		
BioMarin Pharmaceutical Inc.*	60,200	2,131,080
Cephalon, Inc.*	45,200	3,243,552
ImClone Systems Incorporated*	58,500	2,515,500
Onyx Pharmaceuticals, Inc.*	54,800	3,047,976
		10,938,108
BUILDING & CONSTRUCTION—.0%		
China Railway Group Ltd.*	51,200	**70,522**
CASINOS & RESORTS—2.4%		
Bally Technologies Inc.*	212,800	**10,580,416**
CHEMICALS—.1%		
Zoltek Companies, Inc.*	6,300	**270,081**
COMMERCIAL SERVICES & SUPPLIES—.2%		
Monster Worldwide Inc.*	26,600	**861,840**
COMMUNICATION EQUIPMENT—3.7%		
NICE Systems Ltd. ADR*#	67,800	2,326,896
Research In Motion Limited*	93,500	10,602,900
Sonus Networks, Inc.*	569,900	3,322,517
		16,252,313
COMPUTER SERVICES—2.4%		
Satyam Computer Services—ADR#	147,000	3,927,840
Tele Atlas NV*	152,900	6,313,727
		10,241,567
COMPUTER TECHNOLOGY—2.7%		
Atheros Communications*	210,300	6,422,562
NAVTEQ*	67,600	5,110,560
		11,533,122
COMPUTERS & PERIPHERALS—5.0%		
Apple Computer, Inc.*	79,600	15,767,168
Memc Electronic Materials, Inc.*	47,900	4,238,671
Network Appliance, Inc.*	70,400	1,757,184
		21,763,023
CONGLOMERATE—.8%		
ITT Corporation	49,500	**3,268,980**
CONTAINERS & PACKAGING—1.9%		
Pactiv Corporation*	316,097	**8,417,663**
DRUGS & PHARMACEUTICALS—1.2%		
United Therapeutics Corporation*	54,381	**5,310,304**
ENERGY—2.4%		
First Solar, Inc.*	14,100	3,766,674
JA Solar Holdings Co. Ltd. ADR*#	98,700	6,890,247
		10,656,921

COMMON STOCKS—(CONT.)	SHARES	VALUE
ENERGY EQUIPMENT & SERVICES—6.1%		
National-Oilwell Varco Inc.*	19,400	$ 1,425,124
Transocean Inc.*	69,858	10,000,173
Weatherford International Ltd.*	218,300	14,975,380
		26,400,677
FINANCE—.8%		
IntercontinentalExchange Inc.*	17,300	**3,330,250**
FINANCIAL SERVICES—6.9%		
AllianceBernstein Holding LP	41,500	3,122,875
BM&F (Bolsa de Mercadorias e Futuros)*	123,400	1,733,146
Bovespa Holding SA*	229,100	4,414,680
CME Group Inc.	7,662	5,256,132
Lazard Ltd.	98,100	3,990,708
Nymex Holdings Inc.	87,500	11,690,875
		30,208,416
FOOD & STAPLES RETAILING—1.4%		
CVS Caremark Corporation	154,000	**6,121,500**
HEALTH CARE EQUIPMENT & SUPPLIES—2.0%		
Hologic, Inc.*	58,450	4,012,008
Illumina, Inc.*	57,400	3,401,524
Intuitive Surgical, Inc.*	4,400	1,427,800
		8,841,332
HEALTH CARE PROVIDERS & SERVICES—.7%		
Cardinal Health, Inc.	50,300	2,904,825
Community Health Systems Inc.*	3,200	117,952
		3,022,777
HOTELS AND OTHER LODGING PLACES—.5%		
Ctrip.com International Ltd. ADR#	37,800	**2,172,366**
HOTELS, RESTAURANTS & LEISURE—4.4%		
Accor SA	158,800	12,694,596
MGM MIRAGE*	7,800	655,356
Penn National Gaming, Inc.*	96,500	5,746,575
		19,096,527
INFORMATION TECHNOLOGY SERVICES—1.0%		
Cognizant Technology Solutions Corporation Cl. A*	128,700	**4,368,078**
INSURANCE—.3%		
American International Group, Inc.	24,700	**1,440,010**
INTERNET & CATALOG RETAIL—2.0%		
eBay Inc.*	262,700	**8,719,013**
INTERNET SOFTWARE & SERVICES—6.3%		
DealerTrack Holdings Inc.*	66,400	2,222,408
Google Inc. Cl. A*	13,800	9,542,424
SINA Corp.*	207,200	9,181,032
Yahoo! Inc.*	282,700	6,575,602
		27,521,466
LEISURE EQUIPMENT & PRODUCTS—.1%		
Smith & Wesson Holding Corporation*	49,600	**302,560**
MACHINERY—1.2%		
Oshkosh Truck Corporation	110,200	**5,208,052**

COMMON STOCKS—(CONT.)	SHARES	VALUE
MEDIA—2.2%		
Dolby Laboratories Inc. Cl. A*	22,800	$ 1,133,616
DreamWorks Animation SKG, Inc. Cl. A*	95,800	2,446,732
Focus Media Holding Limited ADR*#	93,500	5,311,735
NeuStar, Inc. Cl. A*	17,800	510,504
		9,402,587
MEDICAL PRODUCTS—3.4%		
Inverness Medical Innovations, Inc.*	250,000	14,045,000
Northstar Neuroscience, Inc.*	98,700	917,910
		14,962,910
METALS—.2%		
Uranium One, Inc.*	104,900	**938,519**
METALS & MINING—1.1%		
Freeport-McMoRan Copper & Gold, Inc. Cl. B	21,100	2,161,484
Paladin Resources Limited*	466,800	2,712,108
		4,873,592
MULTILINE RETAIL—.1%		
Macy's Inc.	8,400	**217,308**
OIL & GAS—1.5%		
Aegean Marine Petroleum Network Inc.	74,600	2,863,894
Exterran Holdings Inc.*	17,120	1,400,416
Range Resources Corporation	24,800	1,273,728
Warren Resources Inc.*	77,600	1,096,488
		6,634,526
OIL AND GAS EXPLORATION SERVICES—1.4%		
Petrobank Energy and Resources Ltd.*	104,600	**6,170,333**
PHARMACEUTICAL PREPARATIONS—1.0%		
Adams Respiratory Therapeutics, Inc.*	72,900	**4,355,046**
PHARMACEUTICALS—1.8%		
Abbott Laboratories	112,600	6,322,490
Pharmion Corp.*	21,000	1,320,060
		7,642,550
REAL ESTATE—.3%		
Digital Realty Trust, Inc.	32,800	**1,258,536**
RETAIL—1.0%		
Sothebys Holdings Inc., Cl. A	118,900	**4,530,090**
SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT—5.8%		
Intel Corporation	209,300	5,579,938
Lam Research Corporation*	61,500	2,658,645
ON Semiconductor Corporation*	669,400	5,944,272
Tessera Technologies Inc.*	216,805	9,019,088
Varian Semiconductor Equipment Associates, Inc.*	57,800	2,138,600
		25,340,543
SOFTWARE—4.3%		
Microsoft Corporation	90,600	3,225,360
Net 1 UEPS Technologies, Inc.*	142,050	4,170,588
Solera Holdings Inc.*	231,200	5,729,136
TomTom NV*	72,000	5,437,927
		18,563,011
TELECOMMUNICATIONS—.5%		
SAVVIS, Inc.*	81,400	**2,271,874**
TEXTILES & APPAREL—.7%		
Iconix Brand Group, Inc.*	160,200	**3,149,532**

COMMON STOCKS—(CONT.)	SHARES	VALUE
TEXTILES, APPAREL & LUXURY GOODS—1.0%		
Coach, Inc.*	78,500	$ 2,400,530
Deckers Outdoor Corporation*	11,500	1,783,190
		4,183,720
TOBACCO—3.4%		
Altria Group, Inc.	197,800	**14,949,724**
WIRELESS TELECOMMUNICATION SERVICES—1.2%		
America Movil S.A. de C.V. Series L ADR#	38,150	2,342,028
NII Holdings Inc. Cl. B*	61,800	2,986,176
		5,328,204
TOTAL COMMON STOCKS		
(Cost $383,898,728)		**416,251,819**

CONVERTIBLE CORPORATE BOND—.4%	PRINCIPAL AMOUNT	
TEXTILES & APPAREL		
Iconix Brand Group, Inc., 1.875%, 6/30/12		
(Cost $1,650,000)	$ 1,650,000	1,600,500

SHORT-TERM INVESTMENTS—5.8%		
U.S. AGENCY OBLIGATIONS		
Federal Home Loan Banks. 2.75%, 1/2/08		
(Cost $25,328,065)	25,330,000	25,328,065

Total Investments		
(Cost $410,876,793) (a)	101.7%	443,180,384
Liabilities in Excess of Other Assets	(1.7)	(7,438,363)
NET ASSETS	**100.0%**	**$435,742,021**

* *Non-income producing security.*
\# *American Depositary Receipts.*
(a) *At December 31, 2007, the net unrealized appreciation of investments, based on cost for federal income tax purposes of $413,137,462 amounted to $30,042,922 which consisted of aggregate gross unrealized appreciation of $51,342,751 and aggregate gross unrealized depreciation of $21,299,829.*

THE ALGER AMERICAN FUND
Alger American Leveraged AllCap Portfolio
Statement of Assets and Liabilities *December 31, 2007*

ASSETS:	
Investments in securities, at value (identified cost)* — see accompanying schedule of investments	$ 443,180,384
Cash	12,571
Receivable for investment securities sold	4,765,333
Receivable for shares of beneficial interest sold	282,319
Dividends and interest receivable	161,457
Prepaid expenses	22,296
Total Assets	448,424,360
LIABILITIES:	
Payable for investment securities purchased	11,284,389
Payable for shares of beneficial interest redeemed	1,002,682
Accrued investment management fees	284,969
Accrued transfer agent fees	18,359
Accrued distribution fees	4,414
Accrued administrative fees	14,708
Accrued expenses	72,818
Total Liabilities	12,682,339
NET ASSETS	**$435,742,021**
Net Assets Consist of:	
Paid in capital	$ 405,754,637
Undistributed net investment income (accumulated loss)	(79,899)
Undistributed net realized gain (accumulated loss)	(2,236,308)
Net unrealized appreciation (depreciation) of investments	32,303,591
NET ASSETS	**$435,742,021**
Class O — Net Asset Value Per Share	**$55.39**
Class S — Net Asset Value Per Share	**$54.57**
SHARES OF BENEFICIAL INTEREST OUTSTANDING—NOTE 6	
Class O	**7,491,864**
Class S	**380,849**
*Identified Cost	$ 410,876,793

THE ALGER AMERICAN FUND
Alger American Leveraged AllCap Portfolio
Statement of Operations
For the year ended December 31, 2007

INCOME:	
Dividends (net of foreign withholding taxes*)	$ 2,692,032
Interest	231,364
Total Income	2,923,396
EXPENSES:	
Management fees—Note 3(a)	3,032,581
Distribution fees—Note 3(b)	
Class S	51,806
Administrative fees—Note 3(a)	149,761
Interest on line of credit utilized—Note 5	60,059
Custodian fees	65,587
Transfer agent fees and expenses—Note 3(d)	22,786
Printing fees	105,502
Professional fees	38,130
Trustees' fees	12,234
Miscellaneous	109,268
Total Expenses	3,647,714
Less, expense reimbursements—Note 3(a)	(130,953)
Net Expenses	3,516,761
NET INVESTMENT LOSS	(593,365)
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY TRANSACTIONS:	
Net realized gain on investments	99,399,033
Net realized gain on foreign currency transactions	241,406
Net realized loss on options written	(1,451,084)
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	8,734,351
Net change in unrealized appreciation (depreciation) on options	(441,606)
Net realized and unrealized gain on investments, options and foreign currency	106,482,100
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$105,888,735**
* Foreign withholding taxes	$ 2,184

THE ALGER AMERICAN FUND
Alger American Leveraged AllCap Portfolio
Statement of Changes in Net Assets
For the year ended December 31, 2007

Net investment loss	$ (593,365)
Net realized gain on investments, options and foreign currency transactions	98,189,355
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency translations	8,292,745
Net increase in net assets resulting from operations	105,888,735
Increase (decrease) from shares of beneficial interest transactions:	
Class O	17,021,385
Class S	(9,037,079)
Net increase from shares of beneficial interest transactions—Note 6	7,984,306
Total increase	113,873,041
Net Assets:	
Beginning of year	321,868,980
END OF YEAR	**$435,742,021**
Undistributed net investment accumulated loss	$ (79,899)

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, 2007

Net investment loss	$ (623,629)
Net realized gain on investments, foreign currency transactions and options	67,962,789
Net change in unrealized appreciation (depreciation) on investments, foreign currency translations and options	(12,266,095)
Net increase in net assets resulting from operations	55,073,065
Increase (decrease) from shares of beneficial interest transactions:	
Class O	(51,703,354)
Class S	2,202,134
Net decrease from shares of beneficial interest transactions—Note 6	(49,501,220)
Total increase	5,571,845
Net Assets	
Beginning of year	316,297,135
END OF YEAR	**$321,868,980**
Undistributed net investment income (accumulated loss)	$ (623,629)

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THE ALGER AMERICAN FUND
Alger American Leveraged AllCap Portfolio
Financial Highlights for a share outstanding throughout the year

	CLASS O				
	Year ended 12/31/07	Year ended 12/31/06	Year ended 12/31/05	Year ended 12/31/04	Year ended 12/31/03
INCOME FROM INVESTMENT OPERATIONS					
Net asset value, beginning of year	$ 41.48	$ 34.78	$ 30.39	$ 28.09	$ 20.85
Net investment loss	(0.07)(i)	(0.07)(i)	(0.21)	(0.07)	(0.07)
Net realized and unrealized gain on investments	13.98	6.77	4.60	2.37	7.31
Total from investment operations	13.91	6.70	4.39	2.30	7.24
Net asset value, end of year	$ 55.39	$ 41.48	$ 34.78	$ 30.39	$ 28.09
Total return	33.53%	19.26%	14.45%	8.19%	34.72%
RATIOS/SUPPLEMENTAL DATA					
Net assets, end of year (000's omitted)	$414,959	$298,024	$298,410	$380,336	$382,289
Ratio of expenses to average net assets	0.93%(ii)	0.98%	0.91%	0.97%	0.97%
Ratios of net investment loss to average net assets	(0.15)%	(0.19)%	(0.08)%	(0.14)%	(0.36)%
Portfolio turnover rate	254.03%	245.58%	130.14%	182.41%	161.71%

(i) Amount was computed based on average shares outstanding during the year.
(ii) Amount has been reduced by 0.04% due to expense reimbursement.

See Notes to Financial Statements.

CLASS S				
Year ended 12/31/07	Year ended 12/31/06	Year ended 12/31/05	Year ended 12/31/04	Year ended 12/31/03
$ 40.97	$ 34.44	$ 30.17	$ 27.96	$ 20.83
(0.16)(i)	(0.17)(i)	(0.08)	(0.04)	(0.16)
13.76	6.70	4.35	2.25	7.29
13.60	6.53	4.27	2.21	7.13
$ 54.57	$ 40.97	$ 34.44	$ 30.17	$ 27.96
33.20%	18.96%	14.15%	7.90%	34.23%
$20,783	$23,845	$17,887	$13,772	$ 7,328
1.18%(ii)	1.23%	1.16%	1.22%	1.21%
(0.34)%	(0.45)%	(0.33)%	(0.31)%	(0.63)%
254.03%	245.58%	130.14%	182.41%	161.71%

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 each 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 generally 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). Securities for which such information is readily available are valued at the last reported sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded. In the absence of reported sales, securities are valued at a price within 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 for which market quotations are not readily available or for which the market quotations do not, in the opinion of the investment advisor, reflect the securities true values are valued at fair value, as determined in good faith pursuant to procedures established by the Board of Trustees.

Securities in which the Portfolio invests may be traded in markets that close before the close of the NYSE. Developments that occur between the close of the foreign markets and the close of the NYSE (normally 4:00 p.m. Eastern time) may result in adjustments to closing prices to reflect what the investment advisor, pursuant to policies established by the Board of Trustees, believes to be the fair value of these securities as of the close of the NYSE. The Portfolio may also fair value securities in other situations, for example, when a particular foreign market is closed but the Portfolio is open. Various factors may be reviewed in order to make a good faith determination of a security's fair value. These factors may include, but are not limited to, the type and cost of the security; contractual or legal restrictions on resale of the security; relevant financial or business developments of the issuer; actively traded similar or related securities; conversion or exchange rights on the security; related corporate actions; and changes in overall market conditions.

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

In September 2006, the Financial Accounting Standards Board (FASB) issued *Statement on Financial Accounting Standards No. 157, "Fair Value Measurements"* (FAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2007 the Portfolio does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

(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) Foreign Currency Transactions: The books and records of the Portfolio are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the prevailing rates of exchange on the valuation date. Purchases and sales of investment securities and income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of such transactions.

Net realized gains and losses on foreign currency transactions represent net gains and losses from the disposition of foreign currencies, currency gains and losses realized between the trade dates and settlement dates of security transactions, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. The effects of changes in foreign currency exchange rates on investments in securities are included in realized and unrealized gain or loss on investments in the Statements of Operations.

(d) 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.

(e) Option Contracts: When a Portfolio writes an option, an amount equal to the premium received by the Portfolio is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Portfolio on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a written call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Portfolio has realized a gain or loss. If a written put option is exercised, the premium reduces the cost basis of the securities purchased by the Portfolio. The Portfolio as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

The Portfolio may also purchase put and call options. Purchasing call and put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included in the Portfolio's Statement of Assets and Liabilities as an investment and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying security to determine the realized gain or loss.

(f) Lending of Portfolio Securities: The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets. 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 Portfolios and any required additional collateral is delivered to the Portfolios on the next business day. There were no securities on loan during the year ended December 31, 2007.

(g) 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.

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, premium/discount of debt securities, realized gain loss from foreign currency transactions, and realized gains from redemptions in kind, if any. 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.

(h) Federal Income Taxes: It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, of the Portfolio to its respective shareholders. Therefore, no federal income tax provision is required. The Portfolio is treated as a separate entity for the purpose of determining such compliance.

The Fund has adopted the Financial Accounting Standards Board Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. As result of FIN 48 adoption, there were no positions that required a tax benefit or expense to be recorded in the current year.

(i) 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.

(j) 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.

(k) Other: These financial statements have been prepared in accordance with U.S. generally accepted accounting principles using estimates and assumptions that affect the reported amounts therein. Actual results may differ from those estimates.

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

(a) Investment Advisory and Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement and Administration 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 following annual rates:

Advisory Fee	Administration Fee
.810%	.04%

As part of the settlement with the New York State Attorney General (see Note 8—Litigation) Alger Management has agreed to reduce its advisory fee to 0.775% for the Portfolio for the period from December 1, 2006 through November 30, 2011.

(b) Distribution Fees: Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of each Portfolio pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor"), a fee at the annual rate of .25% of the respective average daily net assets of the Class S shares of the designated 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, 2007, the Portfolio paid the Distributor $762,724 in connection with securities transactions.

(d) Shareholder Administrative Fees: The Fund has entered into a shareholder administrative service agreement with Alger Shareholder Services, Inc. ("Alger Services") to compensate Alger Services on a per account basis for its liaison and administrative oversight of Boston Financial Data Services, Inc., the transfer agent for the Fund ("BFDS") and other related services. During the year ended December 31, 2007, the Portfolio incurred fees of $235 for these services provided by Alger Services which are included in transfer agent fees and expenses.

(e) Other: Certain trustees and officers of the Fund are directors and officers of Alger Management, the Distributor and Alger Services. Each Portfolio pays each Trustee who is not affiliated with the Advisor or its affiliates $500 for each meeting attended, to a maximum of $2,000 per annum. The Chairman of the Board of Trustees receives an additional annual fee of $10,000 which is paid, pro rata, by all portfolios managed by Alger Management. Additionally, each member of the audit committee receives an additional $50 from each Portfolio for each audit committee meeting attended, to a maximum of $200 per annum.

NOTE 4 — Securities Transactions:

Purchases and sales of securities, other than short-term securities, for the year ended December 31, 2007, were $945,580,694 and $960,145,752, respectively.

Written call and put option activity for the year ended December 31, 2007 was as follows:

	NUMBER OF CONTRACTS	PREMIUMS RECEIVED
Options outstanding at December 31, 2006	2,062	$ 713,136
Options written	2,185	1,395,383
Options closed or expired	(2,185)	(1,395,383)
Options exercised	(2,062)	(713,136)
Options outstanding at December 31, 2007	—	$ —

NOTE 5 — Lines of Credit:

The Fund participates in $50 million committed lines of credits with other mutual funds managed by Alger Management. All Borrowings have variable interest rates and are payable on demand.

The Portfolio may borrow under these lines up to 1/3 of the value of its assets to purchase additional securities. To the extent the Portfolio borrows under these lines, it must pledge securities with a total value of at least twice the amount borrowed. For the year ended December 31, 2007, the Portfolio had the following borrowings:

AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
$1,010,848	5.78%

NOTE 6 — Share Capital:

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value which are divided into six series. The Portfolio is divided into two separate classes.

During the year ended December 31, 2007, transactions of shares of beneficial interest were as follows:

	SHARES	AMOUNT
Class O:		
Shares sold	2,105,073	$104,048,525
Shares redeemed	(1,798,562)	(87,027,140)
Net increase	**306,511**	**$17,021,385**
Class S:		
Shares sold	351,063	$ 16,454,197
Shares redeemed	(552,284)	(25,491,276)
Net decrease	**(201,221)**	**$ (9,037,079)**

During the year ended December 31, 2006, transactions of shares of beneficial interest were as follows:

	SHARES	AMOUNT
Class O:		
Shares sold	1,041,009	$ 39,055,541
Shares redeemed	(2,436,336)	(90,758,895)
Net decrease	**(1,395,327)**	**$(51,703,354)**
Class S:		
Shares sold	284,361	$ 10,377,871
Shares redeemed	(221,723)	(8,175,737)
Net increase	**62,638**	**$ 2,202,134**

NOTE 7 — Tax Character of Distributions to Shareholders:

During the year ended December 31, 2007 and the year ended December 31, 2006, there were no distributions paid.

As of December 31, 2007, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	—
Undistributed long-term gain	—
Unrealized appreciation (depreciation)	$30,042,922

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is determined annually and is attributable primarily to the tax deferral of losses on wash sales and straddles, the tax treatment of premium/discount on debt securities, realization of unrealized appreciation of Passive Foreign Investment Companies and return of capital from Real Estate Investment Trust investments.

At December 31, 2007, 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.

EXPIRATION DATE	
2010	TOTAL
$52,924	$52,924

NOTE 8 — Litigation:

Alger Management has responded to inquiries, document requests and/or subpoenas from various regulatory authorities, in connection with their investigations of practices in the mutual fund industry identified as "market timing" and "late trading." On October 11, 2006, Alger Management, Alger Inc. and Alger Shareholder Services, Inc. executed an Assurance of Discontinuance with the Office of the New York State Attorney General ("NYAG"). On January 18, 2007 the Securities and Exchange Commission issued an order implementing settlements reached with Alger Management and Alger Inc. As part of the settlements with the Commission and the NYAG, without admitting or denying liability, the firms paid $30 million to reimburse fund shareholders and a fine of $10 million; and agreed to certain other remedial measures including a reduction in management fees of $1 million per year for five years. The entire $40 million and fee reduction will be available for the benefit of investors. Alger Management has advised the Funds that the settlement has not adversely affected the operations of Alger Management, Alger Inc. or their affiliates, or adversely affect their ability to continue to provide services to the Funds.

On August 31, 2005, the West Virginia Securities Commissioner (the "WVSC") in an ex parte Summary Order to Cease and Desist and Notice of Right to Hearing concluded that Alger Management and Alger Inc. had violated the West Virginia Uniform Securities Act (the "WVUSA"), and ordered Alger Management and Alger Inc. to cease and desist from further violations of the WVUSA by engaging in the market-timing related conduct described in the order. The ex parte order provided notice of their right to a hearing with respect to the violations of law asserted by the WVSC. Other firms unaffiliated with Alger Management were served with similar orders. Alger Management and Alger Inc. intend to request a hearing for the purpose of seeking to vacate or modify the order.

In addition, in 2003 and 2004 several purported class actions and shareholder derivative suits were filed against various parties in the mutual fund industry, including Alger Management, certain mutual funds managed by Alger Management (the "Alger Mutual Funds"), and certain current and former Alger Mutual Fund trustees and officers, alleging wrongful conduct related to market-timing and late-trading by mutual fund shareholders. These cases were transferred to the U.S. District Court of Maryland by the Judicial Panel on Multidistrict Litigation for consolidated pre-trial proceedings. In September 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). In April 2005, a civil lawsuit involving similar allegations was filed by the West Virginia Attorney General and also transferred to the Maryland District Court, but such lawsuit has since been withdrawn.

The Derivative Complaint alleged (i) violations, by Alger Management and, depending on the specific offense alleged, by Alger Inc. and/or the fund trustee defendants, of Sections 36(a), 36(b), 47, and 48 of the Investment Company Act of 1940, as amended, (the "Investment Company Act") and of Sections 206 and 215 of the Investment Advisers Act of 1940, as amended, breach of fiduciary duty, and breach of contract, (ii) various offenses by other third-party defendants, and (iii) unjust enrichment by all the named defendants. The Class Action Complaint alleged, in addition to the offenses listed above, (i) violations, by Alger Management, Alger Inc., their affiliates, the funds named as defendants, including the Funds, and the current and former fund trustees and officers, of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, as amended, Sections 10(b) (and Rule 10b-5 thereunder) and 20(a) of the Securities Exchange Act of 1934, as amended, (the "1934 Act"), and Section 34(b) of the Investment Company Act, (ii) breach of contract by the funds named as defendants, and (iii) unjust enrichment of the defendants.

Motions to dismiss the Class Action Complaint and the Derivative Complaint were subsequently filed.

As a result of a series of court orders, all claims in the Class Action Complaint and the Derivative Complaint have been dismissed, other than claims under the 1934 Act against Alger Management, Alger Inc., Alger Associates, Inc. and Alger Shareholder Services, Inc., and certain present and former members of the senior management of Alger Management and/or Alger Inc., and claims under Section 36(b) of the Investment Company Act against Alger Management, Alger Inc., Alger Associates, Inc. and Alger Shareholder Services, Inc.

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 Fund Leveraged AllCap Portfolio (one of the portfolios comprising The Alger American Fund) (the "Fund") as of December 31, 2007, 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 five 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.

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. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included 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 accounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, by correspondence with custodians 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 Alger American Leveraged AllCap Portfolio at December 31, 2007, 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 five years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 11, 2008

Shareholder Expense Example

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

The example below is based on an investment of $1,000 invested at the beginning of the six-month period starting July 1, 2007 and ending December 31, 2007.

Actual Expenses

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

Hypothetical Example for Comparison Purposes

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

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

		Beginning Account Value July 1, 2007	Ending Account Value December 31, 2007	Expenses Paid During the Period July 1, 2007 to December 31, 2007(b)	Ratio of Expenses to Average Net Assets For the Six Months Ended December 31, 2007(c)
Class O	Actual	$1,000.00	$1,161.20	$5.07	0.93%
	Hypothetical(a)	1,000.00	1,020.52	4.74	0.93
Class S	Actual	1,000.00	1,159.60	6.42	1.18
	Hypothetical(a)	1,000.00	1,019.26	6.01	1.18

(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 184/365 (to reflect the one-half year period).
(c) Annualized.

Trustees and Officers of the Fund (Unaudited)

Information about the Trustees and officers of the Funds is set forth below. In the table the term "Alger Fund Complex" refers to the Fund, The Spectra Funds, The Alger Fund, 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	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
INTERESTED TRUSTEES			
Hilary M. Alger, CFA (45)	Director of Development, Pennsylvania Ballet since 2004; Associate Director of Development, College of Arts and Sciences and Graduate School, University of Virginia 1999-2003.	2003	27
NON-INTERESTED TRUSTEES			
Charles F. Baird, Jr. (54)	Managing Partner of North Castle Partners, a private equity securities group; Chairman of Leiner Health Products, Enzymatic Therapy and Caleel & Hayden (skincare business); former Chairman of Elizabeth Arden Day Spas, Naked Juice, Equinox (fitness company) and EAS (manufacturer of nutritional products). Formerly Managing Director of AEA Investors, Inc.	2007	27
Roger P. Cheever (62)	Senior Associate Dean of Development, Harvard University. Formerly Deputy Director of the Harvard College Fund.	2007	27
Lester L. Colbert, Jr. (73)	Private investor since 1988. Formerly, Chairman of the Board, President and Chief Executive Officer of Xidex Corporation (manufacturer of computer information media).	2007	27
Stephen E. O'Neil (75)	Attorney; Private investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1988	27
David Rosenberg (45)	Associate Professor of Law since January 2006 (Assistant Professor 2000-2005), Zicklin School of Business, Baruch College, City University of New York.	2007	27

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
NON-INTERESTED TRUSTEES (Continued)			
Nathan E. Saint-Amand, M.D. (69)	Medical doctor in private practice; Member of the Board of the Manhattan Institute (non-profit policy research) since 1988. Formerly Co-Chairman, Special Projects Committee, Memorial Sloan Kettering.	1988	27
OFFICERS			
Daniel C. Chung (45) President	President since September 2003 and Chief Investment Officer and Director since 2001 of Alger Management; President since 2003 and Director since 2001 of Alger Associates, Fred Alger International Advisory S.A. (Director since 2003) and Analysts Resources, Inc. ("ARI"). Formerly, Director of the Fund from 2001-2006.	2001	N/A
Hal Liebes (43) Secretary	Executive Vice President, Director, Chief Legal Officer, Chief Operating Officer, and Secretary of Fred Alger & Company, Incorporated and Alger Management; Director since 2006 of Alger Associates, and ARI. Formerly Chief Compliance Officer of AMVESCAP PLC from 2004-2005; U.S. General Counsel from 1994-2002 and Global General Counsel from 2002-2004 of Credit Suisse Asset Management.	2005	N/A
Michael D. Martins (42) Treasurer	Senior Vice President of Alger Management; Assistant Treasurer from 2005 to 2006 of the Fund. Formerly Vice President, Brown Brothers Harriman & Co. from 1997-2004.	2005	N/A
Lisa A. Moss (42) Assistant Secretary	Vice President and Assistant General Counsel of Alger Management since June 2006. Formerly, Director of Merrill Lynch Investment Managers, L.P. from 2005-2006; Assistant General Counsel of AIM Management, Inc. from 1995-2005.	2006	N/A

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Portfolios in the Alger Fund Complex which are Overseen by Trustee
OFFICERS (Continued)			
Barry J. Mullen (54) Chief Compliance Officer	Senior Vice President and Director of Compliance of Alger Management since May 2006. Formerly, Director of BlackRock, Inc. from 2004-2006; Vice President of J.P. Morgan Investment Management from 1996-2004.	2006	N/A
Anthony S. Caputo (52) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President	2007	N/A
Sergio M. Pavone (46) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President	2007	N/A

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) 254-3797.

Investment Management Agreement Renewal (Unaudited)

At an in-person meeting held on September 12, 2007, the Trustees, including the Independent Trustees, unanimously approved renewal of the Investment Advisory Agreement between the Fund and Alger Management (the "Agreement"). The Independent Trustees were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of Alger Management.

In evaluating the Agreement, the Trustees drew on materials that they had requested and which were provided to them in advance of the meeting by Alger Management and by counsel. The materials covered, among other matters, (i) the nature, extent and quality of the services provided by Alger Management under the Agreement, (ii) the investment performance of the Fund's portfolios (each a "Portfolio"), (iii) the costs to Alger Management of its services and the profits realized by Alger Management and Alger Inc. from their relationship with the Fund, and (iv) the extent to which economies of scale would be realized if and as the Portfolios grow and whether the fee levels in the Agreement reflect these economies of scale. These materials included an analysis of the Funds and Alger Management's services by Callan Associates Inc. ("Callan"), an independent consulting firm whose specialties include assistance to fund trustees and directors in their review of advisory contracts pursuant to section 15(c) of the Investment Company Act of 1940. At the meeting, senior Callan personnel provided a presentation to the Trustees based on the Callan materials.

In deciding whether to approve renewal of the Agreement, the Trustees considered various factors, including those enumerated above. They also considered other direct and indirect benefits to Alger Management and its affiliates from their relationship with the Fund.

Nature, Extent and Quality of Services. In considering the nature, extent and quality of the services provided by Alger Management pursuant to the Agreement, the Trustees relied on their prior experience as Trustees of the Fund, their familiarity with the personnel and resources of Alger Management and its affiliates, and the materials provided at the meeting. They noted that under the Agreement Alger Management is responsible for managing the investment operations of the Portfolios. They also noted that administrative, compliance, reporting and accounting services necessary for the conduct of the Fund's affairs are provided under the separate Administration Agreement. The Trustees reviewed the background and experience of Alger Management's senior investment management personnel, including the individuals currently responsible for the investment operations of the Portfolios. They also considered the resources, operational structures and practices of Alger

Management in managing each Portfolio, as well as Alger Management's overall investment management business. They noted especially Alger Management's history of expertise in managing portfolios of "growth" stocks and also took notice of the ability of the manager of the fixed-income portion of the Balanced Portfolio to manage fixed-income instruments across the credit and credit quality spectra. The Trustees concluded that Alger Management's experience, resources and strength in the areas of importance to the Funds are considerable. The Trustees considered the level and depth of Alger Management's ability to execute portfolio transactions to effect investment decisions, including those through Alger Inc. The Trustees also considered the ongoing enhancements to the control and compliance environment at Alger Management and within the Fund.

Investment Performance of the Funds. Drawing upon information provided at the meeting by Alger Management as well as Callan and upon reports provided to the Trustees by Alger Management throughout the preceding year, the Trustees noted that the performance of four of the equity Portfolios for the year-to-date (YTD) (at 8/31/07), 1-year and 3-year periods was excellent, with each of the Portfolios placing well above the median relative to its peers and in most cases above its benchmark as well. In addition, the performance of both the Balanced Portfolio and the Income & Growth Portfolio had improved markedly relative to those Portfolios' peers for the YTD and 1-year periods against a median performance for the 3-year period.

Fund Fees and Expense Ratios; Profitability to Alger Management and its Affiliates. The Trustees considered the profitability of the Investment Advisory Agreement to Alger Management and its affiliates, and the methodology used by Alger Management in determining such profitability. The Trustees reviewed previously-provided data on each Portfolio's profitability to Alger Management and its affiliates for the year ended June 30, 2007. In addition, the Trustees reviewed each Portfolio's management fee and expense ratio and compared them with a group of comparable funds. In order to assist the Trustees in this comparison, Callan had provided the Trustees with comparative information with respect to fees paid, and expense ratios incurred, by similar funds. That information indicated that while fees and expense ratios were at or below the median, the fees and expense ratios of the Portfolio (S Shares) were above the median. In the latter cases, the Trustees determined that such information should be taken into account in weighing the size of the fee against the nature, extent and quality of the services provided. After discussing with representatives of the Adviser and Callan the methodologies used in computing the costs that formed the bases of the profitability calculations, the Trustees turned to the profitability data provided. After analysis and discussion, they concluded that, to the extent that Alger Management's and its affiliates' relationships with the Portfolios had been profitable to either or both of those entities in the case of one or more Portfolios, the profit margin in each case was not unacceptable.

Economies of Scale. On the basis of their discussions with management and their analysis of information provided at the meeting, the Trustees determined that the nature of the Portfolios and their operations is such that Alger Management is likely to realize economies of scale in the management of each Portfolio at some point as (and if) it grows in size, but that adoption of breakpoints in one or more of the advisory fees, while possibly appropriate at a later date, could await further analysis of the sources and potential scale of the economies and the fee structure that would best reflect them. Accordingly, the Trustees requested that Alger Management address this topic with the Trustees at future meetings.

Other Benefits to Alger Management. The Trustees considered whether Alger Management benefits in other ways from its relationship with the Fund. They noted that Alger Management maintains soft-dollar arrangements in connection with certain of the Portfolios' brokerage transactions, reports on which are regularly supplied to the Trustees at their quarterly meetings. The Trustees also noted that Alger Management receives fees from the Portfolios under the Administration Agreement, that Alger, Inc. provides a substantial portion of the Portfolios' equity brokerage and that Alger Shareholder Services, Inc. receives fees from the Fund under a shareholder services agreement. The Trustees had been provided with information regarding, and had considered, the administration fee, brokerage and shareholder services fee benefits in connection with their review of the profitability to Alger Management and its affiliates of their relationships with the Fund. As to other benefits received, the Trustees decided that none were so significant as to render Alger Management's fees excessive.

Conclusions and Determinations. At the conclusion of these discussions, each of the Independent Trustees expressed the opinion that he had been furnished with sufficient information to make an informed business decision with respect to renewal of the Investment Advisory Agreement. Based on its discussions and considerations as described above, the Board made the following conclusions and determinations:

The Board concluded that the nature, extent and quality of the services provided to each Portfolio by Alger Management are adequate and appropriate.

The Board determined that the performance of each of the Portfolios had been satisfactory.

The Board concluded that each advisory fee paid to Alger Management was reasonable in light of comparative performance and expense and advisory fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by Alger Management and its affiliates from the relationship with the Portfolio.

The Board determined that there were not at this time significant economies of scale to be realized by Alger Management in managing the Portfolios' assets but that, to the extent that material economies of scale should be realized in the future, the Board would seek to ensure that they were shared with the applicable Portfolio.

The Board considered these conclusions and determinations and, without any one factor being dispositive, determined with respect to each Portfolio that renewal of the Investment Advisory Agreement was in the best interests of the Portfolio and its shareholders.

Proxy Voting Policies

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

Fund Holdings

The Portfolio's most recent month end portfolio holdings are available approximately sixty days after month end on the Fund's website at www.alger.com. The Portfolios also 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 SEC's website at www.sec.gov or may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information regarding the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. 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

CREDIT SUISSE FUNDS

Annual Report

December 31, 2007

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 Eleven Madison Avenue, New York, NY 10010. 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, 2007; 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 ("Credit Suisse") or any affiliate, are not FDIC-insured and are not guaranteed by Credit Suisse or any affiliate. Portfolio investments are subject to investment risks, including loss of your investment.

Credit Suisse Trust — Emerging Markets Portfolio
Annual Investment Adviser's Report
December 31, 2007 (unaudited)

January 28, 2008

Dear Shareholder:

For the twelve-month period ended December 31, 2007, Credit Suisse Trust — Emerging Markets Portfolio[1] (the "Portfolio") had a gain of 29.44%, versus an increase of 39.78% for the Morgan Stanley Capital International Emerging Markets Free Index.[2]

Market Review: A volatile, yet strong market

For the year ended December 31, 2007, emerging markets showed very strong performance led by BRIC (Brazil, Russia, India and China) and some smaller markets. By sector, strongest performance was seen in materials, energy and industrials (particularly sub-segments related to infrastructure spending). In fact, information technology was the only sector to post negative returns for the year. Markets proved more volatile in Q3 and Q4 as the sub-prime fallout and broader credit market tightness translated into lower risk appetite and concerns over global growth, but overall, emerging market equities continued to outperform developed market peers.

Strategic Review

For the annual period ended December 31, 2007, the Portfolio returned 29.44%, as compared to 39.78% for the MSCI Emerging Markets Free Index. On a country basis, leading contributors to performance included an overweight to Turkey, where index-heavy banks strongly outperformed. Our country overweight and stock selection in Russia (focused on selected energy and wireless telecoms) was also positive, as were our overweights in Brazil and smaller markets such as Egypt.

The fund underperformed primarily due to our underweight in China, a market which showed very strong performance over the year and significant IPO activity, which resulted in a large increase in its benchmark weight within the index. Lack of exposure to some of the smaller cap names which were leading performers also detracted from performance. Stock selection in India and South Korea was also negative overall for the period.

Market Outlook

Going into 2008, emerging market equities face a more uncertain growth environment than in previous years. The stress in credit markets emanating from the fallout from the sub-prime crisis has placed greater uncertainty on the U.S. growth outlook for 2008 and hence global growth as a whole and has resulted in a sharp rise in risk aversion which has hit emerging market stocks disproportionately. While we do not expect the U.S. economy to slide into outright recession, growth risks are increasingly on the downside, which is already feeding into commodity prices and export growth within certain emerging markets.

Having said that, slowdown in the U.S. economy does not necessarily translate into significant slowdown globally as it did in the past. Europe and Japan are on a stronger macroeconomic footing while domestically-driven growth within the emerging markets remains strong and more durable than in previous cycles. Over the past decade, the adoption of market-based policies, trade and capital account liberalization, and strong capital expenditure have created longer-term sources of growth for much of the emerging world and, by extension, the global economy as a whole. As a result, emerging markets themselves are becoming growth leaders and now account for about 30% of the global economy compared to 23% a decade ago. In 2007, they are estimated to have contributed 47% of the world's growth. Moreover, most of this has been led by domestic growth, as investment spending has accelerated across many markets (China, Russia, India, Brazil, Indonesia, Central Europe, Middle East) while consumption growth has entered a take-off phase as per capita GDPs have risen.

Meanwhile, macro and micro fundamentals within emerging markets remain supportive. Emerging markets were chained to the global events over the course of the 1990s due to weak external fundamentals and fixed exchange rates, which meant that any deterioration in global growth and liquidity had direct negative transmission effects on the real economy. The sharp improvement in external surpluses, fiscal, monetary and exchange rate management and greater policy continuity have put emerging markets on a stronger footing than in previous cycles. As a result, while developed market economies enter 2008 on shaky ground, emerging market countries — almost across the board — come into the current turbulence with multi-year positive growth momentum, record levels of investment and portfolio flows and lower debt levels. On the micro level, emerging market corporates are underleveraged compared to the past, while banks in general have limited exposure to the type of financial engineering structures that have resulted in the liquidity crunch and capital losses amongst developed market financial institutions.

One area of concern has been the rising levels of inflation in much of the emerging world. Much of this is related to the global rise in food and energy prices which command a larger share of CPI baskets in the developing world (27% on average versus 15% in developed world CPI baskets). In addition, the complications of managing external liquidity and a build-up in reserves have resulted in higher monetary growth in much of the emerging world which could potentially threaten domestic price levels. In 2007, we saw several cases where monetary authorities unexpectedly hiked rates to deal with incipient inflation problems — South Africa, Chile, Taiwan, Mexico and of course China. While we do not see inflation as a serious issue for emerging markets generally as yet, there could continue to be monetary policy surprises that could affect individual market sentiment.

Given the more uncertain outlook for U.S. growth, growth visibility and uncorrelated growth are likely to be strong investment themes for 2008, which could take a variety of forms. The first of these is a focus on domestic demand, i.e. consumption and investment. On the consumption side, the reduction in real interest rates, growing disposable incomes and deepening financial intermediation have significantly increased the potential for domestic spending in a number of markets. Longer-term demographics favour consumption in the developing world, given the projected structure of working age population and growth in labour force. As countries progress up the development ladder, we expect developing market consumers to close the gap with peers in other markets, be it in the form of rising car ownership, greater overseas travel or enhanced demand for financial services products.

Infrastructure is also likely to remain an important theme. The improvement in fiscal balances over the past decade and greater macro stability have allowed governments in emerging markets to embark on longer-term infrastructure spending after severe neglect over the 1990s — a theme that did not go unnoticed by investors in 2007, as infrastructure-related sub-segments (construction and engineering, transport) posted very strong returns. We believe that the search for earnings visibility will continue to support the investment case for infrastructure-related stocks. Expansion in ports, airports, highways, rail systems and power generation capacity is a multi-year phenomenon that will continue to support overall growth, regardless of the global cycle — and could even be stepped up as a countercyclical policy tool should global growth falter more than expected.

Smaller markets and smaller caps have also shown themselves to be less correlated to the global cycle. Positive demographic and growth trends and economic liberalization make for a compelling investment case across many "frontier" markets in Africa, the former Soviet Union, Asia and the Gulf region. In the past, regulatory and liquidity constraints have limited foreign participation in these markets but over the past few years, we have seen greater liberalization in market access. Similarly, smaller cap stocks which tend to be more domestic in focus have also attracted greater investor attention.

While global flows to emerging markets could continue to prove volatile in the short term, we still believe that global asset allocation will continue to favor a shift toward emerging markets. With emerging markets now accounting for close to 50% of the world economy and continuing to increase as a proportion of global market cap (now 11%), they are simply becoming too important to ignore by global asset allocators and the current sell-off is creating attractive entry points into what we believe to be a longer-term structural growth story.

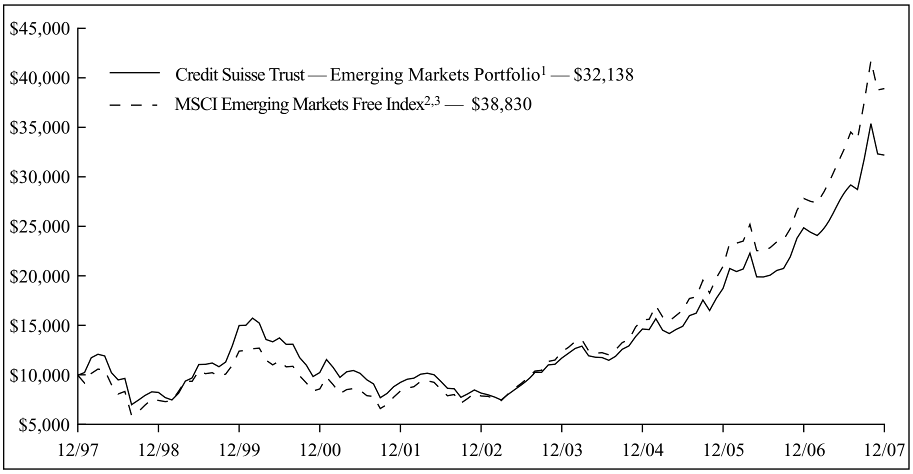
The Credit Suisse Emerging Markets Team

Neil Gregson
Annabel Betz
Elizabeth H. Eaton
Matthew J.K. Hickman
Stephen Parr

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.

Comparison of Change in Value of $10,000 Investment in the Credit Suisse Trust — Emerging Markets Portfolio[1] and the MSCI Emerging Markets Free Index[2,3] for Ten Years.



Average Annual Returns as of December 31, 2007[1]

1 Year	5 Years	10 Years	Since Inception
29.44%	31.40%	12.38%	12.38%

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.credit-suisse.com/us.*

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

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

3 Performance for the benchmark is not available for the period beginning December 31, 1997 (commencement of operations). For that reason performance is shown for the period beginning January 1, 1998.

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, 2007.

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 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.

Expenses and Value of a $1,000 Investment for the six month period ended December 31, 2007

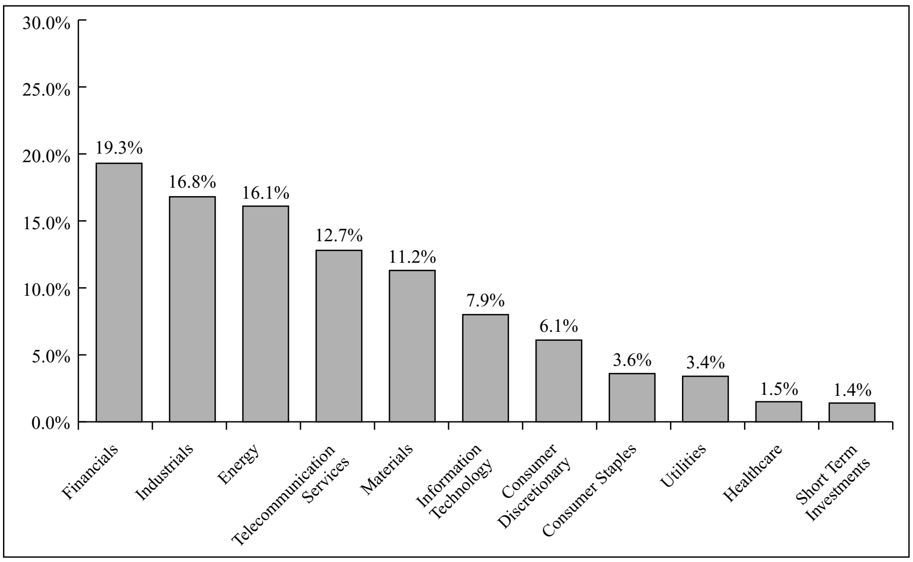
Actual Portfolio Return	
Beginning Account Value 7/1/07	$1,000.00
Ending Account Value 12/31/07	$1,137.20
Expenses Paid per $1,000*	$ 7.27
Hypothetical 5% Portfolio Return	
Beginning Account Value 7/1/07	$1,000.00
Ending Account Value 12/31/07	$1,018.40
Expenses Paid per $1,000*	$ 6.87
Annualized Expense Ratios*	1.35%

* *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 365.*

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. Expenses do not reflect additional charges and expenses that are, or may be, imposed under the variable contracts or plans. Such charges and expenses are described in the prospectus of the insurance company separate account or in the plan documents or other informational materials supplied by plan sponsors. The Portfolio's expenses should be considered with these charges and expenses in evaluating the overall cost of investing in the separate account.

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

SECTOR BREAKDOWN*



* 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, 2007

	Number of Shares	Value
COMMON STOCKS (90.6%)		
Argentina (0.5%)		
Energy Equipment & Services (0.5%)		
Tenaris SA ADR	19,200	$ 858,816
TOTAL ARGENTINA		858,816
Austria (0.3%)		
Energy Equipment & Services (0.3%)		
C.A.T. oil AG*	26,412	581,174
TOTAL AUSTRIA		581,174
Brazil (7.3%)		
Airlines (0.2%)		
Gol-Linhas Aereas Inteligentes SA ADR§	14,500	359,890
Banks (0.5%)		
Unibanco - Uniao de Bancos Brasileiros SA GDR	6,800	949,552
Beverages (0.2%)		
Companhia de Bebidas das Americas ADR§	4,140	281,520
Diversified Telecommunication Services (0.5%)		
Brasil Telecom Participacoes SA	32,359	845,333
Electric Utilities (0.8%)		
Obrascon Huarte Lain Brasil SA	52,800	667,119
Terna Participacoes SA	49,700	865,562
		1,532,681
Food Products (0.2%)		
Cosan SA Industria e Comercio	27,200	317,843
Oil & Gas (2.6%)		
Petroleo Brasileiro SA - Petrobras ADR	48,400	4,657,048
Real Estate (0.8%)		
Cyrela Brazil Realty SA	36,000	489,438
PDG Realty SA Empreendimentos e Participacoes	68,300	959,270
		1,448,708
Specialty Retail (1.2%)		
B2W Compania Global do Varejo	31,500	1,256,461
Lojas Renner SA	34,000	687,640
Redecard SA	16,227	262,549
		2,206,650
Transportation Infrastructure (0.3%)		
Wilson Sons, Ltd. BDR*	41,349	602,813
TOTAL BRAZIL		13,202,038
Chile (0.3%)		
Electric Utilities (0.3%)		
Enersis SA ADR§	34,500	553,035
TOTAL CHILE		553,035

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
China		
Airlines (1.1%)		
Air China, Ltd. Series H§	792,000	$ 1,162,928
China Eastern Airlines Corporation, Ltd. Series H*§	881,597	857,254
		2,020,182
Banks (1.8%)		
China Construction Bank Series H§	1,786,400	1,498,255
Industrial & Commercial Bank of China Series H§	2,478,500	1,756,342
		3,254,597
Electrical Equipment (1.0%)		
Dongfang Electrical Machinery Company, Ltd. Series H	226,000	1,877,145
Insurance (2.1%)		
China Life Insurance Company, Ltd. Series H§	418,100	2,137,102
Ping An Insurance Group Company, Ltd. Series H§	147,000	1,554,379
		3,691,481
Metals & Mining (0.7%)		
Maanshan Iron & Steel Company, Ltd. Series H§	850,019	555,867
Yanzhou Coal Mining Company, Ltd. Series H§	375,082	724,664
		1,280,531
Oil & Gas (1.6%)		
China Petroleum & Chemical Corp. Series H	584,400	864,872
PetroChina Company, Ltd. Series H	1,116,100	1,965,833
		2,830,705
Real Estate (1.1%)		
Beijing Capital Land, Ltd. Series H	1,839,001	1,105,327
Shimao Property Holdings, Ltd.§	364,000	911,955
		2,017,282
Textiles & Apparel (0.8%)		
China Hongxing Sports, Ltd.§	1,123,981	737,607
Sino Techfibre, Ltd.	967,300	662,010
		1,399,617
TOTAL CHINA		18,371,540
Colombia (0.3%)		
Diversified Financials (0.3%)		
Suramericana de Inversiones SA	57,200	565,975
TOTAL COLOMBIA		565,975
Egypt (1.4%)		
Construction & Engineering (0.9%)		
Orascom Construction Industries	15,900	1,642,291
Diversified Telecommunication Services (0.5%)		
Telecom Egypt	246,000	931,430
TOTAL EGYPT		2,573,721

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Hong Kong (4.9%)		
Oil & Gas (1.1%)		
CNOOC, Ltd.	1,229,500	$ 2,064,787
Real Estate (0.3%)		
China Resources Land, Ltd.	237,542	517,173
Wireless Telecommunication Services (3.5%)		
China Mobile, Ltd.	356,344	6,205,551
TOTAL HONG KONG		8,787,511
India (6.8%)		
Automobiles (0.5%)		
Mahindra & Mahindra, Ltd.	45,700	982,080
Chemicals (1.3%)		
Reliance Industries, Ltd.	33,010	2,405,680
Diversified Financials (0.8%)		
ICICI Bank, Ltd. ADR	24,900	1,531,350
Diversified Telecommunication Services (1.0%)		
Bharti Airtel, Ltd.*	68,574	1,715,211
Electrical Equipment (1.0%)		
Bharat Heavy Electricals, Ltd.	26,400	1,718,122
Gas Utilities (0.8%)		
Gail India, Ltd.	108,200	1,469,172
Industrial Conglomerates (0.8%)		
Grasim Industries, Ltd.	15,100	1,374,763
IT Consulting & Services (0.6%)		
Infosys Technologies, Ltd. ADR§	23,800	1,079,568
TOTAL INDIA		12,275,946
Indonesia (2.1%)		
Banks (1.0%)		
PT Bank Central Asia	1,380,000	1,057,480
PT Bank Mandiri	2,339,631	857,491
		1,914,971
Construction & Engineering (0.3%)		
PT Truba Alam Manunggal Engineering TBK*	3,700,000	553,382
Industrial Conglomerates (0.3%)		
PT Bakrie & Brothers TBK*	16,500,000	498,331
Wireless Telecommunication Services (0.5%)		
PT Telekomunikasi Indonesia	803,900	851,041
TOTAL INDONESIA		3,817,725

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Israel (1.0%)		
Electronic Equipment & Instruments (0.3%)		
Orbotech, Ltd.*§	25,100	$ 440,505
Pharmaceuticals (0.7%)		
Teva Pharmaceutical Industries, Ltd. ADR	27,600	1,282,848
TOTAL ISRAEL		1,723,353
Kazakhstan (1.2%)		
Oil & Gas (1.2%)		
KazMunaiGas Exploration Production GDR Rule 144A‡	68,300	2,117,300
TOTAL KAZAKHSTAN		2,117,300
Malaysia (1.4%)		
Construction & Engineering (0.2%)		
Muhibbah Engineering Berhad	254,900	287,272
Diversified Financials (0.3%)		
AMMB Holdings Berhad	509,400	580,971
Hotels, Restaurants & Leisure (0.3%)		
Resorts World Berhad	498,300	580,736
Industrial Conglomerates (0.6%)		
IOI Corporation Berhad	439,075	1,021,626
TOTAL MALAYSIA		2,470,605
Mexico (4.8%)		
Beverages (0.4%)		
Fomento Economico Mexicano SAB de CV ADR	18,731	714,962
Construction Materials (0.6%)		
Cemex SA de CV ADR*§	40,249	1,040,437
Household Durables (0.3%)		
Consorcio ARA SA de CV§	460,200	514,411
Metals & Mining (0.4%)		
Grupo Mexico SA de CV Series B	114,450	719,356
Multiline Retail (0.4%)		
Wal-Mart de Mexico SAB de CV ADR§	18,000	621,000
Real Estate (0.6%)		
Urbi Desarrollos Urbanos SA de CV*§	307,772	1,063,101
Transportation Infrastructure (0.4%)		
Grupo Aeroportuario del Pacifico SA de CV ADR	17,300	772,099
Wireless Telecommunication Services (1.7%)		
America Movil SAB de CV ADR Series L	37,074	2,275,973
America Movil SAB de CV Series L	266,342	817,502
		3,093,475
TOTAL MEXICO		8,538,841

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments (continued)
December 31, 2007

	Number of Shares	Value
COMMON STOCKS		
Poland (0.5%)		
Banks (0.5%)		
Powszechna Kasa Oszczednosci Bank Polski SA	40,000	$ 852,717
TOTAL POLAND		852,717
Russia (12.8%)		
Banks (1.9%)		
Sberbank RF	797,000	3,357,464
Electric Utilities (0.7%)		
OGK-5	383,394	66,833
RAO Unified Energy System of Russia*	930,900	1,214,668
TGK-5 JSC	12,655,572	11,390
		1,292,891
Industrial Conglomerates (0.9%)		
Mining and Metallurgical Company Norilsk Nickel ADR	5,700	1,543,275
Metals & Mining (0.3%)		
Evraz Group SA GDR	6,500	503,750
Oil & Gas (5.9%)		
Gazprom	514,914	7,203,206
Gazprom ADR	15,700	887,157
Lukoil ADR	30,100	2,603,650
		10,694,013
Pharmaceuticals (0.8%)		
Pharmstandard*	5,242	376,113
Pharmstandard GDR*	38,000	1,045,000
		1,421,113
Wireless Telecommunication Services (2.3%)		
Mobile Telesystems	115,000	1,752,893
OAO Vimpel Communications ADR	57,845	2,406,352
		4,159,245
TOTAL RUSSIA		22,971,751
Singapore (1.3%)		
Energy Equipment & Services (0.4%)		
First Resources, Ltd.*	836,120	720,268
Food Products (0.7%)		
Golden Agri-Resources, Ltd.	500,000	728,188
Indofood Agri Resources, Ltd.*	300,000	498,595
		1,226,783
Marine (0.2%)		
Cosco Corp. (Singapore), Ltd.	116,699	460,719
TOTAL SINGAPORE		2,407,770

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments (continued)
December 31, 2007

	Number of Shares	Value
COMMON STOCKS		
South Africa (5.4%)		
Banks (0.7%)		
FirstRand, Ltd.	416,552	$ 1,201,520
Construction & Engineering (0.6%)		
Group Five, Ltd.	63,300	507,632
Murray & Roberts Holdings, Ltd.	39,000	578,746
		1,086,378
Construction Materials (0.6%)		
Pretoria Portland Cement Company, Ltd.	164,819	1,053,264
Food Products (0.4%)		
Tiger Brands, Ltd.	28,800	706,742
Insurance (0.5%)		
Discovery Holdings, Ltd.	1	4
Liberty Group, Ltd.	66,300	871,027
		871,031
Metals & Mining (0.9%)		
Anglo Platinum, Ltd.	11,500	1,696,416
Oil & Gas (0.5%)		
Sasol	16,500	817,632
Wireless Telecommunication Services (1.2%)		
MTN Group, Ltd.	119,600	2,240,067
TOTAL SOUTH AFRICA		9,673,050
South Korea (14.1%)		
Banks (1.6%)		
Kookmin Bank*	23,010	1,696,159
Shinhan Financial Group Company, Ltd.*	21,396	1,213,684
		2,909,843
Beverages (0.4%)		
Hite Brewery Company, Ltd.	4,700	710,589
Construction & Engineering (2.3%)		
GS Engineering & Construction Corp.	11,610	1,909,145
Hyundai Development Co.	13,760	1,330,196
Hyundai Engineering & Construction Company, Ltd.*§	10,000	929,660
		4,169,001
Diversified Financials (0.8%)		
Woori Investment & Securities Company, Ltd.	48,900	1,358,377
Machinery (2.8%)		
Daewoo Shipbuilding & Marine Engineering Company, Ltd.*	31,000	1,690,975
Hyundai Heavy Industries Company, Ltd.*	5,600	2,610,161
Pyeong San Company, Ltd.*§	15,000	803,115
		5,104,251

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments (continued)
December 31, 2007

	Number of Shares	Value
COMMON STOCKS		
South Korea		
Metals & Mining (1.7%)		
POSCO ADR§	19,900	$ 2,993,159
Multiline Retail (2.1%)		
Hyundai Department Store Company, Ltd.	16,329	2,057,888
Shinsegae Company, Ltd.*	2,350	1,810,905
		3,868,793
Semiconductor Equipment & Products (2.4%)		
Samsung Electronics Company, Ltd.	7,261	4,273,081
TOTAL SOUTH KOREA		25,387,094
Taiwan (9.8%)		
Chemicals (0.7%)		
Formosa Plastics Corp.	436,000	1,213,670
Computers & Peripherals (0.7%)		
Acer, Inc.	236,400	458,232
Wistron Corp.	476,424	875,039
		1,333,271
Construction Materials (1.1%)		
Asia Cement Corp.	1,360,908	1,971,909
Diversified Financials (0.8%)		
Yuanta Financial Holdings Company, Ltd.*	2,260,900	1,458,677
Electronic Equipment & Instruments (2.4%)		
Delta Electronics, Inc.	145,270	491,904
Hon Hai Precision Industry Company, Ltd.	456,395	2,812,980
InnoLux Display Corp.	298,227	994,216
		4,299,100
Food Products (0.9%)		
Uni-President Enterprises Corp.	1,276,770	1,703,697
Industrial Conglomerates (0.5%)		
Far Eastern Textile, Ltd.	752,000	874,098
Insurance (0.5%)		
Cathay Financial Holding Company, Ltd.	408,043	843,115
Metals & Mining (0.6%)		
China Steel Corp.	790,559	1,051,656
Semiconductor Equipment & Products (1.6%)		
MediaTek, Inc.	86,000	1,102,335
Taiwan Semiconductor Manufacturing Company, Ltd.	928,596	1,760,606
		2,862,941
TOTAL TAIWAN		17,612,134

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Thailand (1.3%)		
Banks (0.7%)		
Kasikornbank Public Company, Ltd.	295,000	$ 758,930
Siam City Bank Public Company, Ltd.	987,100	436,115
		1,195,045
Construction & Engineering (0.6%)		
Italian - Thai Development Public Company, Ltd.*	4,500,000	1,084,485
TOTAL THAILAND		2,279,530
Turkey (2.4%)		
Banks (1.4%)		
Turkiye Garanti Bankasi AS	170,233	1,519,062
Turkiye Is Bankasi Series C	147,000	918,240
		2,437,302
Commercial Services & Supplies (0.4%)		
TAV Havalimanlari Holding AS*	83,250	758,220
Wireless Telecommunication Services (0.6%)		
Turkcell Iletisim Hizmetleri AS§	102,800	1,129,124
TOTAL TURKEY		4,324,646
Zambia (0.5%)		
Metals & Mining (0.5%)		
First Quantum Minerals, Ltd.	11,000	948,143
TOTAL ZAMBIA		948,143
TOTAL COMMON STOCKS (Cost $101,508,034)		162,894,415
PREFERRED STOCKS (8.0%)		
Brazil (8.0%)		
Banks (1.4%)		
Banco Bradesco SA	34,300	1,097,407
Banco Itau Holding Financeira SA	59,600	1,523,483
		2,620,890
Beverages (0.4%)		
Companhia de Bebidas das Americas ADR§	10,200	724,506
Diversified Telecommunication Services (1.0%)		
Telemar Norte Leste SA Class A	24,600	946,685
Telesp - Telecomunicacoes de Sao Paulo SA	32,400	822,742
		1,769,427
Industrial Conglomerates (0.6%)		
Bradespar SA	39,600	1,058,966
Itausa - Investimentos Itau SA	2,027	13,381
		1,072,347

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
PREFERRED STOCKS		
Brazil		
Metals & Mining (1.9%)		
Companhia Vale do Rio Doce ADR	119,800	$ 3,352,004
Oil & Gas (2.0%)		
Petroleo Brasileiro SA - Petrobras ADR	30,800	3,549,392
Road & Rail (0.7%)		
ALL America Latina Logistica	96,000	1,242,607
TOTAL PREFERRED STOCKS (Cost $4,288,844)		14,331,173
RIGHTS (0.0%)		
Brazil (0.0%)		
Food Products (0.0%)		
Cosan SA Industria e Comercio, strike price BRL 21.00, expires 01/07/08	11,851	—
TOTAL BRAZIL		—
Thailand (0.0%)		
Diversified Telecommunication Services (0.0%)		
True Corporation Public Company, Ltd. strike price THB 20.60, expires 04/03/08^	50,021	—
TOTAL THAILAND		—
TOTAL RIGHTS (Cost $0)		—
SHORT-TERM INVESTMENTS (9.7%)		
State Street Navigator Prime Portfolio§§	14,984,938	14,984,938
	Par (000)	
State Street Bank and Trust Co. Euro Time Deposit, 3.100%, 1/02/08	$2,534	2,534,000
TOTAL SHORT-TERM INVESTMENTS (Cost $17,518,938)		17,518,938
TOTAL INVESTMENTS AT VALUE (108.3%) (Cost $123,315,816)		194,744,526
LIABILITIES IN EXCESS OF OTHER ASSETS (-8.3%)		(14,927,872)
NET ASSETS (100.0%)		$179,816,654

INVESTMENT ABBREVIATIONS

ADR = American Depositary Receipt
BDR = Brazilian Depositary Receipt
GDR = Global Depositary 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, 2007, these securities amounted to a value of $2,117,300 or 1.2% of net assets.

^ Not readily marketable security; 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 — Emerging Markets Portfolio
Statement of Assets and Liabilities
December 31, 2007

Assets	
Investments at value, including collateral for securities on loan of $14,984,938 (Cost $123,315,816) (Note 2)	$194,744,526[1]
Cash	897
Foreign currency at value (cost $180,084)	180,627
Dividend and interest receivable	276,432
Receivable for portfolio shares sold	232,847
Prepaid expenses and other assets	17,785
Total Assets	195,453,114
Liabilities	
Advisory fee payable (Note 3)	190,041
Administrative services fee payable (Note 3)	18,169
Payable upon return of securities loaned (Note 2)	14,984,938
Payable for portfolio shares redeemed	244,860
Deferred foreign tax liability (Note 2)	106,971
Trustees' fee payable	804
Other accrued expenses payable	90,677
Total Liabilities	15,636,460
Net Assets	
Capital stock, $0.001 par value (Note 6)	7,627
Paid-in capital (Note 6)	50,465,009
Undistributed net investment income	1,201,133
Accumulated net realized gain from investments and foreign currency transactions	56,816,943
Net unrealized appreciation from investments and foreign currency translations	71,325,942
Net Assets	$179,816,654
Shares outstanding	7,626,907
Net asset value, offering price, and redemption price per share	$23.58

[1] Including $14,273,298 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, 2007

Investment Income (Note 2)	
Dividends	$ 4,450,440
Interest	167,200
Securities lending	112,501
Foreign taxes withheld	(471,330)
Total investment income	4,258,811
Expenses	
Investment advisory fees (Note 3)	2,183,988
Administrative services fees (Note 3)	228,182
Custodian fees	184,046
Interest expense (Note 4)	36,232
Audit and tax fees	34,652
Trustees' fees	19,852
Legal fees	15,931
Printing fees (Note 3)	14,657
Insurance expense	8,111
Transfer agent fees	4,931
Commitment fees (Note 4)	4,363
Miscellaneous expense	28,095
Total expenses	2,763,040
Less: fees waived (Note 3)	(293,555)
Net expenses	2,469,485
Net investment income	1,789,326
Net Realized and Unrealized Gain (Loss) from Investments and Foreign Currency Related Items	
Net realized gain from investments (net of Foreign Capital Gain Tax $64,182)	57,931,762
Net realized loss from foreign currency transactions	(394,205)
Net change in unrealized appreciation (depreciation) from investments	(14,167,971)
Net change in unrealized appreciation (depreciation) from foreign currency translations	137,608
Net realized and unrealized gain from investments and foreign currency related items	43,507,194
Net increase in net assets resulting from operations	$ 45,296,520

See Accompanying Notes to Financial Statements.

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

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
From Operations		
Net investment income	$ 1,789,326	$ 2,384,682
Net realized gain from investments and foreign currency transactions	57,537,557	24,141,498
Net change in unrealized appreciation (depreciation) from investments and foreign currency translations	(14,030,363)	32,665,333
Net increase in net assets resulting from operations	45,296,520	59,191,513
From Dividends and Distributions		
Dividends from net investment income	(2,363,281)	(1,180,743)
Distributions from net realized gains	(24,399,983)	(2,900,006)
Net decrease in net assets resulting from dividends and distributions	(26,763,264)	(4,080,749)
From Capital Share Transactions (Note 6)		
Proceeds from sale of shares	40,554,090	53,674,806
Reinvestment of dividends and distributions	26,763,264	4,080,749
Net asset value of shares redeemed	(148,352,555)	(56,737,879)
Net increase (decrease) in net assets from capital share transactions	(81,035,201)	1,017,676
Net increase (decrease) in net assets	(62,501,945)	56,128,440
Net Assets		
Beginning of year	242,318,599	186,190,159
End of year	$ 179,816,654	$242,318,599
Undistributed net investment income	$ 1,201,133	$ 1,830,087

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,				
	2007	2006	2005	2004	2003
Per share data					
Net asset value, beginning of year	$ 21.85	$ 16.82	$ 13.25	$ 10.63	$ 7.44
INVESTMENT OPERATIONS					
Net investment income	0.37	0.21	0.14	0.12	0.07
Net gain on investments and foreign currency related items (both realized and unrealized)	5.58	5.19	3.53	2.53	3.12
Total from investment operations	5.95	5.40	3.67	2.65	3.19
LESS DIVIDENDS AND DISTRIBUTIONS					
Dividends from net investment income	(0.37)	(0.11)	(0.10)	(0.03)	—
Distributions from net realized gains	(3.85)	(0.26)	—	—	—
Total dividends and distributions	(4.22)	(0.37)	(0.10)	(0.03)	—
Net asset value, end of year	$ 23.58	$ 21.85	$ 16.82	$ 13.25	$ 10.63
Total return[1]	29.44%	32.51%	27.84%	25.02%	42.88%
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (000s omitted)	$179,817	$242,319	$186,190	$115,224	$73,782
Ratio of expenses to average net assets	1.30%	1.36%	1.40%	1.40%	1.40%
Ratio of net investment income to average net assets	0.94%	1.11%	1.11%	1.21%	0.94%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.15%	0.23%	0.25%	0.29%	0.41%
Portfolio turnover rate	62%	80%	77%	121%	167%

[1] 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 years shown, total returns would have been lower. Total returns do not reflect charges and expenses attributable to any particular variable contract or plan.

See Accompanying Notes to Financial Statements.

Note 1. Organization

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.

Note 2. Significant Accounting Policies

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. 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. Investments in mutual funds are valued at the mutual fund's closing net asset value per share on the day of valuation. 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. When fair-value pricing is employed,

Note 2. Significant Accounting Policies

the prices of securities used by a portfolio to calculate its net asset value may differ from quoted or published prices for the same 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 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 Portfolio's intention to 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

Note 2. Significant Accounting Policies

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

G) SHORT-TERM INVESTMENTS — The Portfolio, together with other funds/portfolios advised by Credit Suisse Asset Management, LLC ("Credit Suisse"), 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 Credit Suisse. 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 forward 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, 2007, 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 Credit Suisse and may be invested in a variety of investments, including certain Credit Suisse-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.

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. During the year ended December 31, 2007, total earnings from the

Note 2. Significant Accounting Policies

Portfolio's investment in cash collateral received in connection with securities lending arrangements was $1,087,311, of which $949,060 was rebated to borrowers (brokers). The Portfolio retained $112,501 in income from the cash collateral investment, and SSB, as lending agent, was paid $25,750. 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 is earned or gains are realized.

Note 3. Transactions with Affiliates and Related Parties

Credit Suisse serves as investment adviser for the Portfolio. Effective October 1, 2006, the Portfolio pays Credit Suisse for its advisory services a fee that consists of two components: (1) a monthly base management fee calculated by applying a fixed rate of 1.20% ("Base Fee"), plus or minus (2) a performance-fee adjustment ("Performance Adjustment") calculated by applying a variable

Note 3. Transactions with Affiliates and Related Parties

rate of up to 0.20% (positive or negative) to the Portfolio's average daily net assets during the applicable performance measurement period. The performance measurement period will generally be 36 months. During the period from October 1, 2006 through September 30, 2007, only the Base Fee applied to the Portfolio. The fee adjustment went into effect on October 1, 2007. After 12 months have passed, the measurement period will be equal to the number of months that have elapsed since October 1, 2006 until 36 months has passed, after which the measurement period will become 36 months. The Base Fee is calculated and accrued daily. The Performance Adjustment is accrued and calculated daily. The investment advisory fee is paid monthly in arrears. No Performance Adjustment will be applied unless the difference between the Portfolio's investment performance and the investment record of the MSCI Emerging Markets Free Index, the Portfolio's benchmark index (the "Index"), is 1.00% or greater (plus or minus) during the applicable performance measurement period. For purposes of computing the Base Fee and the Performance Adjustment, net assets will be averaged over different periods (average daily net assets during the relevant month for the Base Fee, versus average daily net assets during the performance measurement period for the Performance Adjustment). The investment performance of the Portfolio for the performance measurement period is used to calculate the Portfolio's Performance Adjustment. After Credit Suisse determines whether the Portfolio's performance was above or below the Index by comparing the investment performance of the Portfolio against the investment record of the Index, Credit Suisse will apply the Performance Adjustment (positive or negative) across the Portfolio.

The following table shows the structure of the Performance Adjustment. No Performance Adjustment will be applied unless the difference between the Portfolio's investment performance and the investment record of the Index is 1.00% or greater (plus or minus) during the applicable performance measurement period.

	Annualized Return (Net of Expenses) Relative to Index	Performance Adjustment
	Over 2.00%	+0.20%
	1.00% to 2.00%	+0.10%
Base Fee plus/minus	0.00% to 1.00%	None
	0.00% to -1.00%	None
	-1.00% to -2.00%	-0.10%
	Over -2.00%	-0.20%

For the year ended December 31, 2007, investment advisory fees earned and voluntarily waived were $2,283,972 and $293,555, respectively, less a

Note 3. Transactions with Affiliates and Related Parties

performance fee adjustment of $99,984. Credit Suisse will not recapture from the Portfolio any fees it waived during the fiscal year ended December 31, 2007. Fee waivers and reimbursements are voluntary and may be discontinued by Credit Suisse at anytime.

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

Credit Suisse Asset Management Securities, Inc. ("CSAMSI"), an affiliate of Credit Suisse, 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 0.09% of the Portfolio's average daily net assets. For the year ended December 31, 2007, co-administrative services fees earned by CSAMSI were $171,298.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, 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. For the year ended December 31, 2007, co-administrative services fees earned by SSB (including out-of-pocket expenses) were $56,884.

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 Credit Suisse, has been engaged by the Portfolio to provide certain financial printing and fulfillment services. For the year ended December 31, 2007, Merrill was paid $15,406 for its services to the Portfolio.

Note 4. Line of Credit

The Portfolio, together with other funds/portfolios advised by Credit Suisse (collectively, the "Participating Funds"), participates in a $50 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

Note 4. Line of Credit

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, 2007, the Portfolio had no loans outstanding under the Credit Facility. During the year ended December 31, 2007, the Portfolio had borrowings under the Credit Facility as follows:

Average Daily Loan Balance	Weighted Average Interest Rate%	Maximum Daily Loan Outstanding
$4,708,458	5.771%	$17,247,000

Note 5. Purchases and Sales of Securities

For the year ended December 31, 2007, purchases and sales of investment securities (excluding short-term investments) were $115,350,106 and $212,287,476, respectively.

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:

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
Shares sold	1,735,883	2,834,504
Shares issued in reinvestment of dividends and distributions	1,264,207	225,705
Shares redeemed	(6,461,658)	(3,040,925)
Net increase (decrease)	(3,461,568)	19,284

On December 31, 2007, the number of shareholders that held 5% or more of the outstanding shares of the Portfolio was as follows:

Number of Shareholders	Approximate Percentage of Outstanding Shares
4	94%

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

Note 7. Federal Income Taxes

The tax characteristics of dividends and distributions paid during the years ended December 31, 2007, and 2006, respectively, by the Portfolio were as follows:

Ordinary Income		Long-Term Capital Gain	
2007	2006	2007	2006
$10,113,031	$1,930,716	$16,650,233	$2,150,033

The tax basis components of distributable earnings differ from the amounts reflected in the Statement of Assets and Liabilities by temporary book/ tax differences. These differences are primarily due to losses deferred on wash sales, post-October loss deferrals and the mark-to-market income from Passive Foreign Investment Companies.

At December 31, 2007, the components of distributable earnings on a tax basis for the Portfolio were as follows:

Undistributed net investment income	$ 18,662,054
Accumulated net realized gains	40,633,293
Unrealized appreciation	70,058,486
Deferral of Post – October currency losses	(9,815)
	$129,344,018

Under current tax law, certain currency losses realized after October 31 within a taxable year may be deferred and treated as occurring on the first day of the following tax year. For the tax period ended December 31, 2007, the Portfolio elected to defer net losses arising between November 1, 2007 and December 31, 2007 as follows:

Currency
$(9,815)

At December 31, 2007, 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 and excess of cost over value and the net unrealized appreciation from investments were $124,583,273, $72,876,174, $(2,714,921) and $70,161,253, respectively.

At December 31, 2007, the Portfolio reclassified $54,999 from undistributed net investment income to accumulated net realized gain from investments, to adjust for current year permanent book/tax differences which arose principally from differing book/tax treatments of foreign currency transactions, realized capital gains tax and the sale of Passive Foreign Investment Companies. 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.

Note 9. Recent Accounting Pronouncements

During June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48" or the "Interpretation"), *Accounting for Uncertainty in Income Taxes—an interpretation of FASB statement 109*. FIN 48 supplements FASB Statement 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 prescribes a comprehensive model for how a fund should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the fund has taken or expects to take on a tax return. FIN 48 requires that the tax effects of a position be recognized only if it is "more likely than not" to be sustained based solely on its technical merits. Management must be able to conclude that the tax law, regulations, case law, and other objective information regarding the technical merits sufficiently support the position's sustainability with a likelihood of more than 50 percent. During the period ended December 31, 2007, Management has adopted FIN 48. There was no material impact to the financial statements or disclosures thereto as a result of the adoption of this pronouncement.

On September 20, 2006, the FASB released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years, beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2007, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required in subsequent reports.

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

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, 2007, 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, 2007 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
February 25, 2008

In approving the renewal of the current Advisory and Sub-Advisory Agreements, the Board of Trustees, including the Independent Trustees, at a meeting held on November 13 and 14, 2007, considered the following factors with respect to the Emerging Markets Portfolio (the "Portfolio"):

Investment Advisory Fee Rates

The Board reviewed and considered the current contractual advisory fee with a base rate of 1.20% for the Portfolio plus a variable performance adjustment fee based upon the Portfolio's performance relative to its benchmark during a performance adjustment period ("Contractual Advisory Fee"), in light of the extent and quality of the advisory services provided by Credit Suisse Asset Management, LLC ("Credit Suisse") or Credit Suisse Asset Management Limited ("Credit Suisse U.K.") and Credit Suisse Asset Management Limited ("Credit Suisse Australia"). The Board also reviewed and considered the fee waivers and/or expense reimbursement arrangements currently in place for the Portfolio and considered the actual fee rate of 1.00% paid by the Portfolio after taking waivers and reimbursements into account ("Net Advisory Fee"). The Board acknowledged that voluntary fee waivers and expense reimbursements could be discontinued at any time. The Board noted that the compensation paid to Credit Suisse U.K. and Credit Suisse Australia (collectively, the "Sub-Advisers") does not increase the fees or expenses otherwise incurred by the Portfolio's shareholders.

Additionally, the Board received and considered information comparing the Portfolio's Contractual Advisory Fee, Net Advisory Fee and the Portfolio's overall expenses with those of funds in both the relevant expense group ("Expense Group") and universe of funds (the "Expense Universe") provided by Lipper Inc., an independent provider of investment company data.

Nature, Extent and Quality of the Services under the Advisory and Sub-Advisory Agreements

The Board received and considered information regarding the nature, extent and quality of services provided to the Portfolio by Credit Suisse under the Advisory Agreement and by the Sub-Advisers under the Sub-Advisory Agreements. The Board also noted information received at regular meetings throughout the year related to the services rendered by Credit Suisse and the Sub-Advisers. The Board reviewed background information about Credit Suisse and the Sub-Advisers, including their respective Forms ADV. The Board considered the background and experience of both Credit Suisse's and the

Sub-Advisers' senior management and the expertise of, and the amount of attention given to the Portfolio by, senior personnel of Credit Suisse and the Sub-Advisers. With respect to the Sub-Advisers, the Board also considered their expertise in managing the types of global investments that the Portfolio utilizes in its investment strategy. In addition, the Board reviewed the qualifications, backgrounds and responsibilities of the portfolio management team primarily responsible for the day-to-day portfolio management of the Portfolio and the extent of the resources devoted to research and analysis of actual and potential investments. The Board also received and considered information about the nature, extent and quality of services and fee rates offered to other Credit Suisse clients for comparable services.

In approving the Sub-Advisory Agreements, the Board also considered the benefits of retaining Credit Suisse's United Kingdom and Australian affiliates given the increased complexity of the domestic and international securities markets, specifically that retention of Credit Suisse U.K. and Credit Suisse Australia expands the universe of companies and countries from which investment opportunities could be sought and enhances the ability of the Portfolio to obtain the best price and execution on trades in international markets.

Portfolio Performance

The Board received and considered the performance results of the Portfolio, along with comparisons both to the relevant performance group ("Performance Group") and universe of funds ("Performance Universe") for the Portfolio. The Board was provided with a description of the methodology used to arrive at the funds included in the Performance Group and the Performance Universe.

Credit Suisse Profitability

The Board received and considered a profitability analysis of Credit Suisse based on the fees payable under the Advisory Agreement for the Portfolio, including any fee waivers or fee caps, as well as other relationships between the Portfolio on the one hand and Credit Suisse affiliates on the other. The Board received profitability information for the other funds in the Credit Suisse family of funds.

Economies of Scale

The Board considered whether economies of scale in the provision of services to the Portfolio were being passed along to the shareholders. Accordingly, the

Board considered whether alternative fee structures (such as breakpoint fee structures) would be more appropriate or reasonable taking into consideration economies of scale or other efficiencies that might accrue from increases in the Portfolio's asset levels.

Other Benefits to Credit Suisse

The Board considered other benefits received by Credit Suisse, the Sub-Advisers and their affiliates as a result of their relationship with the Portfolio. Such benefits include, among others, research arrangements with brokers who execute transactions on behalf of the Portfolio, administrative and brokerage relationships with affiliates of Credit Suisse and the Sub-Advisers and benefits potentially derived from an increase in Credit Suisse's and the Sub-Advisers' businesses as a result of their relationship with the Portfolio (such as the ability to market to shareholders other financial products offered by Credit Suisse, the Sub-Advisers and their affiliates).

The Board considered the standards applied in seeking best execution, whether and to what extent soft dollar credits are sought and how any such credits are utilized, any benefits that may be achieved by using an affiliated broker and the existence of quality controls applicable to brokerage allocation procedures. The Board also reviewed Credit Suisse's and the Sub-Advisers' method for allocating portfolio investment opportunities among their advisory clients.

Conclusions

In selecting Credit Suisse and the Sub-Advisers, and approving the Advisory Agreement and the investment advisory fee under such agreement and the Sub-Advisory Agreements, the Board concluded that:

- The Board noted that while the Contractual Advisory Fee was above the median for the Expense Group, the net total expenses were below the median.
- The Board was aware that the Portfolio's performance was below most funds in the Performance Group and the Performance Universe for all periods reviewed. The Board noted that the performance-based fee adjustment, which went into effect in October 2007, had been adopted to more closely align Credit Suisse's interests with the interests of the Portfolio's shareholders, which could results in improved investment performance over time for the benefit of all shareholders. The Board would continue to monitor steps taken by Credit Suisse to improve performance.

- Aside from performance (as described above), the Board was satisfied with the nature and extent of the investment advisory services provided to the Portfolio by Credit Suisse and the Sub-Advisers and that, based on dialogue with management and counsel, the services provided by Credit Suisse under the Advisory Agreement and by the Sub-Advisers under the Sub-Advisory Agreements are typical of, and consistent with, those provided to similar mutual funds by other investment advisers.
- In light of the costs of providing investment management and other services to the Portfolio and Credit Suisse's ongoing commitment to the Portfolio and willingness to waive fees and expenses, the profits and other ancillary benefits that Credit Suisse and its affiliates received were considered reasonable.
- Credit Suisse's profitability based on fees payable under the Advisory Agreement was reasonable in light of the nature, extent and quality of the services provided to the Portfolio thereunder.
- In light of the amount of the net total expenses, the Portfolio's current fee structure was considered reasonable.

No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve the Advisory Agreement and the Sub-Advisory Agreements. The Independent Trustees were advised by separate independent legal counsel throughout the process.

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

Name, Address (Year of Birth)	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Independent Trustees					
Enrique Arzac c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 (1941)	Trustee, Nominating Committee Member and Audit Committee Chairman	Since 2005	Professor of Finance and Economics, Graduate School of Business, Columbia University since 1971.	35	Director of Epoch Holding Corporation (an investment management and investment advisory services company); Director of The Adams Express Company (a closed-end investment company); Director of Petroleum and Resources Corporation (a closed-end investment company).
Jeffrey E. Garten[2] Box 208200 New Haven, Connecticut 06520-8200 (1946)	Trustee, Nominating and Audit Committee Member	Since 1998	The Juan Trippe Professor in the Practice of International Trade, Finance and Business from July 2005 to present; Partner and Chairman of Garten Rothkopf (consulting firm) from October 2005 to present; Dean of Yale School of Management from November 1995 to June 2005.	28	Director of Aetna, Inc. (insurance company); Director of CarMax Group (used car dealers); Director of Alcan, Inc. (smelting and refining of nonferrous metals company).

[1] Each Trustee and Officer serves until his or her respective successor has been duly elected and qualified.

[2] 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 reappointed on December 21, 2000.

Name, Address (Year of Birth)	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Independent Trustees					
Peter F. Krogh SFS/ICC 702 Georgetown University Washington, DC 20057 (1937)	Trustee, Nominating 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.	28	Director of Carlisle Companies Incorporated (diversified manufacturing company).
Steven N. Rappaport Lehigh Court, LLC 555 Madison Avenue 29th Floor New York, New York 10022 (1948)	Chairman of the Board of Trustees, Nominating Committee Chairman and Audit Committee Member	Trustee since 1999 and Chairman since 2005	Partner of Lehigh Court, LLC and RZ Capital (private investment firms) from July 2002 to present.	35	Director of iCAD, Inc. (surgical and medical instruments and apparatus company); Director of Presstek, Inc. (digital imaging technologies company); Director of Wood Resources, LLC. (plywood manufacturing company).
Interested Trustee					
Michael E. Kenneally[3] c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 (1954)	Trustee	Since 2004	Chairman and Global Chief Executive Officer of Credit Suisse from March 2003 to July 2005; Chairman and Chief Investment Officer of Banc of America Capital Management from 1998 to March 2003.	28	None

[3] Mr. Kenneally is a Trustee who is an "interested person" of the Trust as defined in the Investment Company Act of 1940, as amended, because he was an officer of Credit Suisse within the last two fiscal years.

Name, Address (Year of Birth)	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years
Officers			
Lawrence D. Haber c/o Credit Suisse Asset Management, LLC. Attn: General Counsel Eleven Madison Avenue New York, New York 10010 (1951)	Chief Executive Officer and President	Since 2007	Managing Director and Chief Operating Officer of Credit Suisse; Member of Credit Suisse's Management Committee; Chief Financial Officer of Merrill Lynch Investment Managers from 1997 to 2003.
Michael A. Pignataro Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1959)	Chief Financial Officer	Since 1999	Director and Director of Fund Administration of Credit Suisse; Associated with Credit Suisse or its predecessor since 1984; Officer of other Credit Suisse Funds.
Emidio Morizio Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1966)	Chief Compliance Officer	Since 2004	Director and Global Head of Compliance of Credit Suisse; Associated with Credit Suisse since July 2000; Officer of other Credit Suisse Funds.
J. Kevin Gao Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1967)	Chief Legal Officer since 2006, Vice President and Secretary since 2004	Since 2004	Director and Legal Counsel of Credit Suisse; Associated with Credit Suisse since July 2003; Associated with the law firm of Willkie Farr & Gallagher LLP from 1998 to 2003; Officer of other Credit Suisse Funds.
Robert Rizza Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1965)	Treasurer	Since 2006	Vice President of Credit Suisse; Associated with Credit Suisse 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.

Important Tax Information for Corporate Shareholders

Corporate Shareholders should note for the year ended December 31, 2007, 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%.

Important Tax Information for Shareholders

During the year ended December 31, 2007, the Portfolio declared $16,650,233 in dividends that were designated as long-term capital gains dividends.

Proxy Voting and Portfolio Holdings Information (unaudited)

Information regarding how the Portfolio voted proxies related to its portfolio securities during the 12 month period ended June 30 of each year, 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.credit-suisse.com/us
- On the website of the Securities and Exchange Commission, 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 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 1-202-551-8090.

CREDIT SUISSE

P.O. Box 55030, Boston, MA 02205-5030
800-222-8977 ■ www.credit-suisse.com/us

CREDIT SUISSE ASSET MANAGEMENT SECURITIES, INC., DISTRIBUTOR. TREMK-AR-1207

CREDIT SUISSE FUNDS

Annual Report

December 31, 2007

CREDIT SUISSE TRUST
▪ GLOBAL SMALL CAP 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 Eleven Madison Avenue, New York, NY 10010. 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, 2007; 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 ("Credit Suisse") or any affiliate, are not FDIC-insured and are not guaranteed by Credit Suisse or any affiliate. Portfolio investments are subject to investment risks, including loss of your investment.

January 28, 2008

Dear Shareholder:

For the twelve months ended December 31, 2007, Credit Suisse Trust — Global Small Cap Portfolio (the "Portfolio") had a loss of -4.02%, versus an increase of 1.13% for the Morgan Stanley Capital International World Small Cap Index.[1]

Market Review: China remains the global growth engine

For the year ended December 31, 2007, global growth has remained robust as China continues to act as the growth engine within the Asian markets. In the United States, rising global demand and elevated commodity prices boosted the energy and materials sectors to post the highest returns within the large cap sector of 32.4% and 20%, respectively. Additionally, U.S. real Gross Domestic Product — driven by consumer demand and solid growth in the manufacturing and service sectors — is forecast to grow at around 2% for 2007 in spite of the exceptionally weak start to the year.

Growth within the Euro region appears to have decelerated with export growth showing signs of slowing, probably due to the strength of the Euro. China has tightened monetary policy while the Federal Reserve (Fed) has cut interest rates by 1.0% to 4.25%. The European Central Bank has raised rates by 0.25% on four occasions taking official rates to 4%, but they have remained on hold since June. In February, the Bank of Japan (BoJ) tightened for the second time in this current cycle to 0.5%.

The U.S. dollar declined against a broad index of world currencies and oil rose to record levels, surpassing the $100 intraday on January 2, 2008.

Strategic Review and Market Outlook: Economic growth in emerging markets remains robust

Internationally, the leading contributors to performance came from healthcare, industrials, and information technology. Domestically, the leading positive relative contributors to performance came from stock selection in materials, healthcare, and consumer discretionary. Conversely, on a global basis, the largest detractors to performance came from consumer discretionary, financials and materials. Domestically, the largest detractors to performance came primarily from stock selection within the industrials, followed closely by information technology and energy.

Globally, we have adopted a reasonably defensive stance for the UK and continental Europe in light of the uncertain economic outlook. This includes significant healthcare exposure through holdings such as Getinge (2.05% of the portfolio's net assets as of December 31). In Japan, we are focused on companies such as infrastructure-related firms that are set to grow in the expanding emerging markets, as well as companies that supply internationally competitive products. We also focus on companies such as those involved in the environment, energy conservation, medicine and healthcare, or ubiquitous services as we believe these sectors are less susceptible to economic fallout.

In the United States, we believe growth stocks could continue to outperform their value counterparts in 2008. We expect companies with solid growth prospects and strong operating results momentum to lead the market, and believe that companies fitting attractive valuation profiles will make a moderate comeback in the coming quarters. From a sector perspective, we are favorable toward the healthcare, energy, commercial services, and consumer staples groups. Conversely, the unsettled credit market and risks of further impact from mortgage losses leads us to underweight financial and consumer discretionary industries.

Overall, the economic outlook appears to be more uncertain than at any time in the past 5 years amid fears that the slowdown in the U.S. and the impact of the credit crisis will have major implications for the UK and Europe. Amid the general uncertainty, investors have become far more risk averse. This could potentially have major implications for less liquid asset classes — such as small cap equities. However, economic growth in emerging markets remains robust and the strength in these markets is compensating for the weakness in more established economies such as the United States. Against this backdrop we remain reasonably optimistic on the outlook for small cap equities.

In this context, we believe there are good opportunities for growth in niche markets — especially in Europe — as there are companies that have excellent positions in their respective fields of activity with a bias to exports in either Eastern Europe or the Asian markets. Furthermore, the convergence into a single European market has maintained its positive effect as the intra-European trade increases. This makes the region more robust against slower economic growth in the United States.

The outlook for the UK economy appears mixed. While most small cap companies continue to report healthy levels of profitability, there are fears that the impact of rising interest rates is now having a delayed effect on UK consumer spending. Further, although the UK Government has prudently scaled back its GDP growth expectations for 2008, it remains too early to say what, if any, impact the U.S. sub-prime crisis will have on UK financial institutions and the general availability of credit. In view of the uncertain outlook, the UK proportion of the fund is relatively defensive. It is also worth noting that the present volatility in the UK equity markets has the advantage of offering some attractive buying opportunities in the small cap arena.

While the financial markets are likely to remain nervous globally, decoupling in the global economy continues and economic growth in BRICs (Brazil, Russia, India and China) has become more organic. This affects the Fund through Japan as small cap market valuations there have reached about the same level as those associated with major markets in the United States and Europe — historically very low levels by Japanese standards. Therefore, solid movement will be expected over the medium and long terms.

In the United States, we expect housing markets may remain weak through the first half of 2008. Additionally, expectations for U.S. stock market volatility, as measured by the VIX Index, are for levels above historical averages. We also expect the pace of mergers and acquisitions by private equity firms will not reach the level seen in the first half of 2007, as the availability of debt financing has lessened significantly.

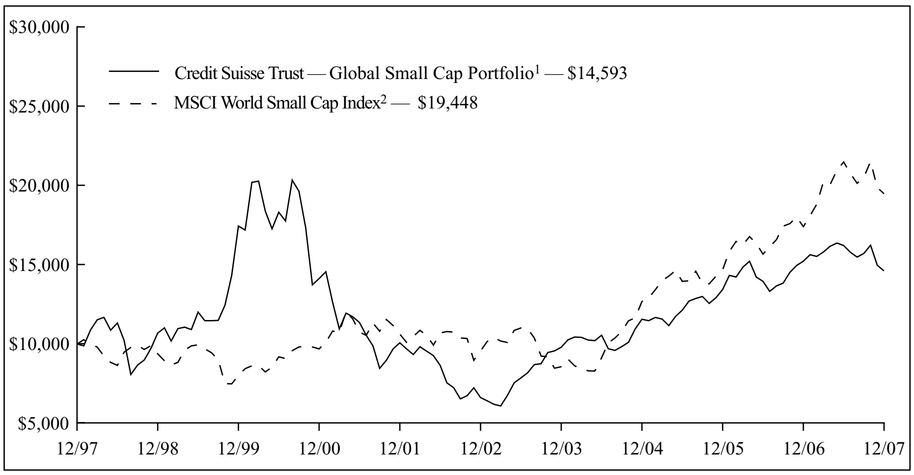
Sincerely,

James Chapman
Jordan Low
Eric Leng
Todd Jablonski

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 investments in start-up and other small companies and certain aggressive strategies it may use, an investment in the Portfolio may be more volatile and less liquid than investments in larger companies and 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.

Comparison of Change in Value of $10,000 Investment in the Credit Suisse Trust — Global Small Cap Portfolio[1] and the MSCI World Small Cap Index[2] for Ten Years.



Average Annual Returns as of December 31, 2007[1]

1 Year	5 Years	10 Years	Since Inception[3]
(4.02)%	17.08%	3.85%	4.35%

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.credit-suisse.com/us.*

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

2 The Morgan Stanley Capital International World Small Cap Index is an unmanaged broad-based index comprised of small cap companies from 23 developed markets. Index returns are price only and do not reflect the reinvestment of dividends. It is the exclusive property of Morgan Stanley Capital International Inc. Investors cannot invest directly in an index.

3 Inception date 9/30/96.

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, 2007.

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 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.

Expenses and Value of a $1,000 Investment for the six month period ended December 31, 2007

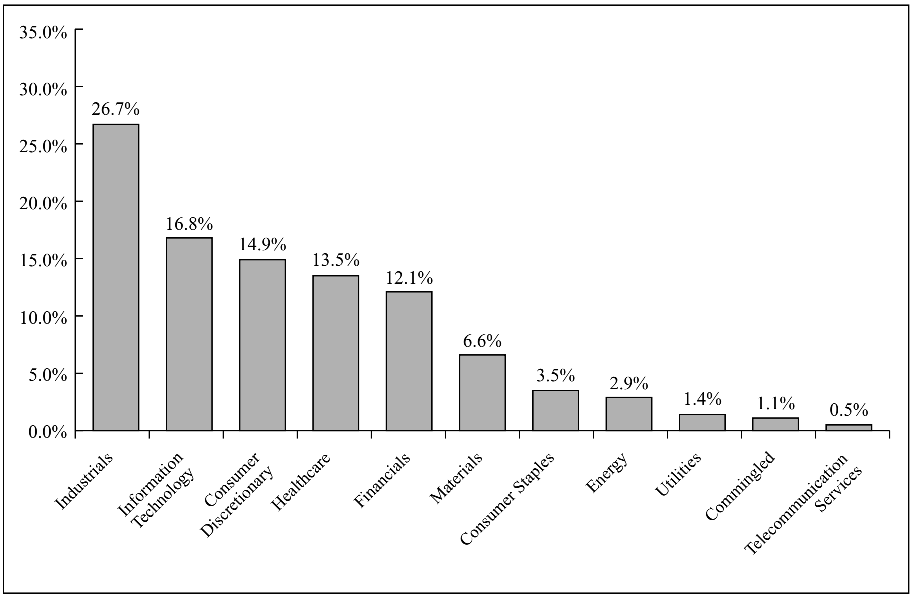
Actual Portfolio Return	
Beginning Account Value 7/1/07	$1,000.00
Ending Account Value 12/31/07	$ 901.40
Expenses Paid per $1,000*	$ 6.42
Hypothetical 5% Portfolio Return	
Beginning Account Value 7/1/07	$1,000.00
Ending Account Value 12/31/07	$1,018.45
Expenses Paid per $1,000*	$ 6.82
Annualized Expense Ratios*	1.34%

* *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 365.*

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. Expenses do not reflect additional charges and expenses that are, or may be, imposed under the variable contracts or plans. Such charges and expenses are described in the prospectus of the insurance company separate account or in the plan documents or other informational materials supplied by plan sponsors. The Portfolio's expenses should be considered with these charges and expenses in evaluating the overall cost of investing in the separate account.

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

SECTOR BREAKDOWN*



* Expressed as a percentage of total investments (excluding security lending collateral) and may vary over time.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments
December 31, 2007

	Number of Shares	Value
COMMON STOCKS (98.1%)		
Australia (6.9%)		
Banks (1.0%)		
Bendigo Bank, Ltd.§	67,000	$ 864,319
Commercial Services & Supplies (0.4%)		
Iress Market Technology, Ltd.§	55,000	382,833
Diversified Financials (3.1%)		
Austbrokers Holdings, Ltd.	312,000	1,250,330
Australian Infrastructure Fund§	256,000	693,237
Mortgage Choice, Ltd.§	395,000	746,309
		2,689,876
Machinery (0.4%)		
Emeco Holdings, Ltd.§	329,000	306,490
Media (1.3%)		
Seven Network, Ltd.§	67,000	747,877
STW Communications Group, Ltd.§	205,000	420,387
		1,168,264
Transportation Infrastructure (0.7%)		
Babcock & Brown Infrastructure Group	419,192	585,526
TOTAL AUSTRALIA		5,997,308
Bermuda (0.7%)		
Insurance (0.4%)		
Argo Group International Holdings, Ltd.*	2,200	92,686
IPC Holdings, Ltd.§	2,000	57,740
Max Capital Group, Ltd.	5,300	148,347
Platinum Underwriters Holdings, Ltd.	1,600	56,896
		355,669
Internet & Catalog Retail (0.1%)		
Global Sources, Ltd.§	3,960	111,751
Marine (0.2%)		
Golar LNG, Ltd.§	3,200	70,784
TBS International, Ltd. Class A*§	1,700	56,202
		126,986
TOTAL BERMUDA		594,406
Cayman Islands (0.1%)		
Food Products (0.1%)		
Fresh Del Monte Produce, Inc.*	1,600	53,728
TOTAL CAYMAN ISLANDS		53,728
China (1.4%)		
Communications Equipment (1.4%)		
ZTE Corp. Series H§	237,550	1,263,065
TOTAL CHINA		1,263,065

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Denmark (1.2%)		
Household Durables (1.2%)		
Bang & Olufsen AS B Shares§	11,600	$ 1,084,123
TOTAL DENMARK		1,084,123
Finland (0.4%)		
Communications Equipment (0.4%)		
Elcoteq SE§	54,150	321,404
TOTAL FINLAND		321,404
France (1.0%)		
Real Estate (1.0%)		
Nexity	19,491	891,307
TOTAL FRANCE		891,307
Germany (9.8%)		
Building Products (1.4%)		
Pfleiderer AG§	57,300	1,186,470
Commercial Services & Supplies (1.3%)		
CeWe Color Holding AG	28,500	1,121,525
Healthcare Providers & Services (1.6%)		
Rhoen-Klinikum AG	43,050	1,355,987
Machinery (2.5%)		
KUKA AG*§	58,000	2,206,985
Real Estate (0.7%)		
Vivacon AG§	35,000	657,501
Specialty Retail (2.3%)		
Fielmann AG	30,600	1,996,944
TOTAL GERMANY		8,525,412
Japan (16.3%)		
Auto Components (2.3%)		
NHK Spring Company, Ltd.	96,000	876,257
Nippon Seiki Company, Ltd.	50,000	1,091,704
		1,967,961
Chemicals (3.4%)		
Kuraray Company, Ltd.	100,500	1,212,464
Nippon Shokubai Company, Ltd.	71,000	680,320
Teijin, Ltd.	251,850	1,073,364
		2,966,148
Commercial Services & Supplies (0.1%)		
Take and Give Needs Company, Ltd.§	895	125,778
Communications Equipment (0.7%)		
Epson Toyocom Corp.	153,000	645,549

	Number of Shares	Value
COMMON STOCKS		
Japan		
Computers & Peripherals (0.9%)		
Melco Holdings, Inc.§	51,300	$ 801,141
Distributor (0.4%)		
Happinet Corp.	21,100	307,309
Diversified Financials (0.9%)		
Asset Managers Company, Ltd.	440	511,974
OMC Card, Inc.§	87,100	297,189
		809,163
Electrical Equipment (1.3%)		
Hitachi Cable, Ltd.	187,000	1,103,503
Food Products (0.8%)		
Mitsui Sugar Company, Ltd.	199,000	705,588
Hotels, Restaurants & Leisure (0.7%)		
Round One Corp.	309	612,408
Internet & Catalog Retail (0.4%)		
Belluna Company, Ltd.§	50,200	349,372
Internet Software & Services (1.4%)		
ACCA Networks Company, Ltd.§	206	308,877
SBI Holdings, Inc.	3,375	907,504
		1,216,381
Machinery (1.0%)		
Sodick Company, Ltd.	159,800	841,929
Media (1.3%)		
Kadokawa Group Holdings, Inc.§	38,000	1,091,709
Specialty Retail (0.7%)		
Village Vanguard Company, Ltd.	109	583,341
TOTAL JAPAN		14,127,280
Netherlands (3.0%)		
Electronic Equipment & Instruments (1.2%)		
Gemalto NV*§	34,200	1,075,242
Semiconductor Equipment & Products (1.5%)		
ASM International NV	53,120	1,302,278
Software (0.3%)		
Tele Atlas NV*§	6,744	278,481
TOTAL NETHERLANDS		2,656,001
Norway (3.0%)		
Electronic Equipment & Instruments (1.6%)		
Tandberg ASA	66,172	1,366,290
Machinery (1.4%)		
Tomra Systems ASA§	172,000	1,210,773
TOTAL NORWAY		2,577,063

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Panama (0.1%)		
Banks (0.1%)		
Banco Latinoamericano de Exportaciones SA	2,900	$ 47,299
TOTAL PANAMA		47,299
Puerto Rico (0.1%)		
Banks (0.1%)		
First Bancorp.	10,400	75,816
Santander Bancorp	2,800	24,248
TOTAL PUERTO RICO		100,064
Sweden (4.1%)		
Commercial Services & Supplies (0.7%)		
Cision AB*§	216,000	569,220
Healthcare Equipment & Supplies (2.0%)		
Getinge AB Class B	66,664	1,782,244
Machinery (1.4%)		
Alfa Laval AB	21,652	1,215,748
TOTAL SWEDEN		3,567,212
Switzerland (1.3%)		
Machinery (1.3%)		
Georg Fischer AG*	1,865	1,147,440
TOTAL SWITZERLAND		1,147,440
United Kingdom (10.7%)		
Commercial Services & Supplies (3.4%)		
Michael Page International PLC	135,000	768,580
Serco Group PLC	240,000	2,209,068
		2,977,648
Diversified Financials (0.7%)		
Melrose PLC	189,680	594,982
Industrial Conglomerates (3.7%)		
Intertek Group PLC	100,000	1,974,168
Synergy Healthcare PLC	81,215	1,272,051
		3,246,219
Insurance (0.9%)		
Amlin PLC	115,555	682,448
Amlin PLC, Class B	130,000	57,966
		740,414
Road & Rail (2.0%)		
Arriva PLC	110,000	1,712,644
TOTAL UNITED KINGDOM		9,271,907

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2007

	Number of Shares	Value
COMMON STOCKS		
United States (38.0%)		
Aerospace & Defense (0.7%)		
Cubic Corp.	4,400	$ 172,480
Curtiss-Wright Corp.§	8,000	401,600
		574,080
Airlines (0.0%)		
Alaska Air Group, Inc.*§	800	20,008
Auto Components (0.5%)		
American Axle & Manufacturing Holdings, Inc.§	7,500	139,650
Cooper Tire & Rubber Co.	11,100	184,038
Lear Corp.*	3,900	107,874
		431,562
Banks (1.5%)		
1st Source Corp.§	1,000	17,310
AMCORE Financial, Inc.§	1,800	40,860
Anchor Bancorp Wisconsin, Inc.§	1,300	30,576
BancFirst Corp.§	800	34,280
Bank of the Ozarks, Inc.	900	23,580
BankUnited Financial Corp. Class A§	2,500	17,250
Cathay General Bancorp§	2,400	63,576
Central Pacific Financial Corp.§	3,900	71,994
Chemical Financial Corp.§	800	19,032
Citizens Republic Bancorp, Inc.§	6,700	97,217
Community Trust Bancorp, Inc.	600	16,518
Corus Bankshares, Inc.§	2,600	27,742
Downey Financial Corp.§	800	24,888
East West Bancorp, Inc.§	3,600	87,228
First Community Bancorp§	2,200	90,728
FirstFed Financial Corp.*§	2,200	78,804
Hanmi Financial Corp.§	6,800	58,616
Pacific Capital Bancorp§	1,800	36,234
Prosperity Bancshares, Inc.§	2,700	79,353
Sterling Financial Corp.§	5,500	92,345
Sterling Financial Corp.	1,000	16,420
SVB Financial Group*§	2,700	136,080
Umpqua Holdings Corp.§	5,300	81,302
United Community Banks, Inc.§	3,500	55,300
		1,297,233
Beverages (0.1%)		
Boston Beer Company, Inc. Class A*§	2,100	79,065

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
United States		
Biotechnology (3.0%)		
Acorda Therapeutics, Inc.*§	3,800	$ 83,448
Alexion Pharmaceuticals, Inc.*§	1,000	75,030
BioMarin Pharmaceutical, Inc.*§	8,600	304,440
Cubist Pharmaceuticals, Inc.*§	7,600	155,876
IDEXX Laboratories, Inc.*	3,200	187,616
Isis Pharmaceuticals, Inc.*§	9,400	148,050
LifeCell Corp.*§	3,500	150,885
Myriad Genetics, Inc.*§	3,200	148,544
Onyx Pharmaceuticals, Inc.*§	4,900	272,538
OSI Pharmaceuticals, Inc.*§	1,500	72,765
Pharmanet Development Group, Inc.*§	4,900	192,129
Regeneron Pharmaceuticals, Inc.*§	4,100	99,015
Savient Pharmaceuticals, Inc.*§	9,200	211,324
Seattle Genetics, Inc.*§	6,800	77,520
United Therapeutics Corp.*	2,000	195,300
ViroPharma, Inc.*§	24,900	197,706
		2,572,186
Building Products (0.1%)		
Lennox International, Inc.§	2,000	82,840
Chemicals (1.7%)		
Calgon Carbon Corp.*§	5,100	81,039
CF Industries Holdings, Inc.	6,200	682,372
Minerals Technologies, Inc.§	1,400	93,730
Olin Corp.§	7,800	150,774
OM Group, Inc.*§	5,200	299,208
W.R. Grace & Co.*	5,500	143,990
		1,451,113
Commercial Services & Supplies (2.6%)		
Arbitron, Inc.§	1,400	58,198
Atlas Air Worldwide Holdings, Inc.*§	3,200	173,504
Bally Technologies, Inc.*§	3,800	188,936
Bowne & Company, Inc.§	2,200	38,720
Capella Education Co.*§	2,400	157,104
Clean Harbors, Inc.*§	1,900	98,230
Convergys Corp.*	8,000	131,680
CSG Systems International, Inc.*§	3,300	48,576
Darling International, Inc.*	6,800	78,608
DeVry, Inc.§	3,100	161,076
DynCorp International, Inc. Class A*	7,600	204,288
FTI Consulting, Inc.*§	4,100	252,724
Heidrick & Struggles International, Inc.§	1,500	55,665
Herman Miller, Inc.§	1,200	38,868
Koppers Holdings, Inc.	1,700	73,508
Korn/Ferry International*§	3,200	60,224
Pre-Paid Legal Services, Inc.*§	2,700	149,445
Strayer Education, Inc.§	500	85,290
Tetra Tech, Inc.*§	5,900	126,850
TrueBlue, Inc.*§	3,500	50,680
		2,232,174

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2007

	Number of Shares	Value
COMMON STOCKS		
United States		
Commingled Fund (0.4%)		
iShares Russell 2000 Index Fund§	4,400	$ 334,048
Communications Equipment (0.8%)		
Arris Group, Inc.*§	2,874	28,680
Atheros Communications*	4,100	125,214
Comtech Telecommunications Corp.*§	3,100	167,431
Emulex Corp.*§	6,500	106,080
Foundry Networks, Inc.*§	4,300	75,336
Ixia*	3,200	30,336
Plantronics, Inc.§	2,400	62,400
ViaSat, Inc.*	2,000	68,860
		664,337
Computers & Peripherals (0.6%)		
Hutchinson Technology, Inc.*	4,500	118,440
NCR Corp.*	14,700	368,970
Novatel Wireless, Inc.*§	2,400	38,880
Sigma Designs, Inc.*§	800	44,160
		570,450
Construction & Engineering (0.3%)		
Perini Corp.*§	2,200	91,124
Shaw Group, Inc.*§	2,100	126,924
URS Corp.*	103	5,596
		223,644
Containers & Packaging (0.3%)		
AptarGroup, Inc.	1,700	69,547
Myers Industries, Inc.	3,600	52,092
Rock-Tenn Co. Class A	2,600	66,066
Silgan Holdings, Inc.§	1,300	67,522
		255,227
Diversified Financials (0.9%)		
Advanta Corp. Class B§	2,200	17,754
ASTA Funding, Inc.§	800	21,152
CBIZ, Inc.*§	3,700	36,297
Cohen & Steers, Inc.§	1,100	32,967
GAMCO Investors, Inc. Class A	1,300	89,960
GFI Group, Inc.*§	400	38,288
Greenhill & Company, Inc.§	1,400	93,072
MCG Capital Corp.§	7,600	88,084
Morningstar, Inc.*§	500	38,875
optionsXpress Holdings, Inc.§	3,500	118,370
Texas Capital Bancshares, Inc.*§	1,900	34,675
Walter Industries, Inc.§	5,800	208,394
		817,888

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2007

	Number of Shares	Value
COMMON STOCKS		
United States		
Diversified Telecommunication Services (0.3%)		
Cincinnati Bell, Inc.*§	19,200	$ 91,200
PAETEC Holding Corp.*§	2,800	27,300
Premiere Global Services, Inc.*	7,400	109,890
		228,390
Electric Utilities (0.7%)		
Black Hills Corp.§	2,800	123,480
El Paso Electric Co.*	10,100	258,257
ITC Holdings Corp.§	2,000	112,840
Ormat Technologies, Inc.§	2,900	159,529
		654,106
Electrical Equipment (0.2%)		
Encore Wire Corp.§	3,100	49,352
II-VI, Inc.*	2,800	85,540
Superior Essex, Inc.*§	1,000	24,000
		158,892
Electronic Equipment & Instruments (0.9%)		
FLIR Systems, Inc.*§	2,800	87,640
Itron, Inc.*§	1,100	105,567
Littelfuse, Inc.*§	1,700	56,032
Methode Electronics, Inc.	8,100	133,164
MTS Systems Corp.§	800	34,136
Plexus Corp.*	3,600	94,536
Rofin-Sinar Technologies, Inc.*	2,000	96,220
Varian, Inc.*	2,400	156,720
		764,015
Energy Equipment & Services (1.2%)		
Atwood Oceanics, Inc.*§	3,900	390,936
Basic Energy Services, Inc.*§	2,800	61,460
Dril-Quip, Inc.*§	2,600	144,716
Global Industries, Ltd.*	3,100	66,402
ION Geophysical Corp*§	5,300	83,634
Lufkin Industries, Inc.§	2,800	160,412
Oil States International, Inc.*§	2,500	85,300
Trico Marine Services, Inc.*§	1,800	66,636
		1,059,496
Food & Drug Retailing (1.7%)		
Casey's General Stores, Inc.	3,500	103,635
Central European Distribution Corp.*§	5,200	302,016
Longs Drug Stores Corp.§	2,700	126,900
Nash Finch Co.§	1,900	67,032
Performance Food Group Co.*§	2,600	69,862
Spartan Stores, Inc.§	1,500	34,275
Terra Industries, Inc.*§	15,900	759,384
Winn-Dixie Stores, Inc.*	3,200	53,984
		1,517,088

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
United States		
Food Products (0.3%)		
Cal-Maine Foods, Inc.§	2,800	$ 74,284
Chiquita Brands International, Inc.*§	3,300	60,687
Sanderson Farms, Inc.§	3,700	124,986
USANA Health Sciences, Inc.*§	700	25,956
		285,913
Gas Utilities (0.6%)		
Energen Corp.	4,000	256,920
New Jersey Resources Corp.§	700	35,014
Northwest Natural Gas Co.§	2,000	97,320
Southwest Gas Corp.	3,300	98,241
		487,495
Healthcare Equipment & Supplies (1.8%)		
ArthroCare Corp.*§	2,000	96,100
Haemonetics Corp.*§	1,500	94,530
Hologic, Inc.*§	3,500	240,240
Immucor, Inc.*	5,500	186,945
Meridian Bioscience, Inc.§	3,850	115,808
ResMed, Inc.*§	2,700	141,831
SurModics, Inc.*§	4,200	227,934
Ventana Medical Systems, Inc.*	4,000	348,920
Wright Medical Group, Inc.*§	5,500	160,435
		1,612,743
Healthcare Providers & Services (1.5%)		
Air Methods Corp.*§	3,800	188,746
Amedisys, Inc.*§	4,300	208,636
Amerigroup Corp.*	1,100	40,095
AmSurg Corp.*§	4,200	113,652
Kindred Healthcare, Inc.*§	4,900	122,402
Magellan Health Services, Inc.*§	800	37,304
Molina Healthcare, Inc.*§	1,000	38,700
PARAXEL International Corp.*	6,000	289,800
Sunrise Senior Living, Inc.*§	3,600	110,448
Tenet Healthcare Corp.*§	38,700	196,596
		1,346,379
Hotels, Restaurants & Leisure (0.4%)		
Buffalo Wild Wings, Inc.*§	1,300	30,186
Chipotle Mexican Grill, Inc. Class B*§	300	36,915
Jack in the Box, Inc.*	1,200	30,924
Landry's Restaurants, Inc.§	1,400	27,580
Monarch Casino & Resort, Inc.*§	4,100	98,728
Papa John's International, Inc.*§	1,900	43,130
Ruby Tuesday, Inc.	2,600	25,350
WMS Industries, Inc.*§	1,600	58,624
		351,437

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
United States		
Household Durables (0.4%)		
American Greetings Corp. Class A§	5,200	$ 105,560
Tempur-Pedic International, Inc.§	4,800	124,656
Tupperware Brands Corp.	4,600	151,938
		382,154
Industrial Conglomerates (0.1%)		
Chemed Corp.§	1,300	72,644
Insurance (0.8%)		
American Equity Investment Life Holding Co.§	3,900	32,331
American Physicians Capital, Inc.§	700	29,022
CNA Surety Corp.*	1,700	33,643
Commerce Group, Inc.§	900	32,382
Employers Holdings, Inc.§	2,000	33,420
National Interstate Corp.§	1,000	33,100
Navigators Group, Inc.*	700	45,500
Philadelphia Consolidated Holding Corp.*	900	35,415
Safety Insurance Group, Inc.	1,000	36,620
Selective Insurance Group, Inc.	4,300	98,857
State Auto Financial Corp.§	2,400	63,120
Tower Group, Inc.§	1,500	50,100
United Fire & Casualty Co.	1,600	46,544
Zenith National Insurance Corp.§	2,800	125,244
		695,298
Internet & Catalog Retail (0.5%)		
Blue Nile, Inc.*§	700	47,642
Insight Enterprises, Inc.*§	1,900	34,656
Priceline.com, Inc.*§	2,700	310,122
School Specialty, Inc.*§	1,500	51,825
		444,245
Internet Software & Services (0.8%)		
Blue Coat Systems, Inc.*	2,300	75,601
NETGEAR, Inc.*§	3,500	124,845
Sohu.com, Inc.*§	3,300	179,916
United Online, Inc.§	15,800	186,756
ValueClick, Inc.*	3,100	67,890
Vignette Corp.*	2,200	32,142
		667,150
IT Consulting & Services (0.4%)		
IHS, Inc. Class A*§	1,600	96,896
Phase Forward, Inc.*§	6,300	137,025
SAIC, Inc.*	1,700	34,204
Sapient Corp.*	6,600	58,146
		326,271

	Number of Shares	Value
COMMON STOCKS		
United States		
Leisure Equipment & Products (0.3%)		
Callaway Golf Co.§	5,100	$ 88,893
JAKKS Pacific, Inc.*§	3,400	80,274
Marvel Entertainment, Inc.*§	1,200	32,052
Polaris Industries, Inc.§	2,200	105,094
		306,313
Machinery (1.7%)		
Actuant Corp. Class A§	4,400	149,644
Applied Industrial Technologies, Inc.	2,200	63,844
Badger Meter, Inc.§	1,000	44,950
Barnes Group, Inc.§	2,000	66,780
Bucyrus International, Inc.§	2,700	268,353
Cascade Corp.§	1,200	55,752
Ceradyne, Inc.*§	1,800	84,474
Columbus McKinnon Corp.*	2,500	81,550
Dionex Corp.*	1,900	157,434
Gorman-Rupp Co.§	1,250	39,000
Hurco Companies, Inc.*	1,200	52,380
Manitowoc Company, Inc.	2,300	112,309
Mueller Industries, Inc.	2,600	75,374
RBC Bearings, Inc.*	1,000	43,460
Robbins & Myers, Inc.	1,100	83,193
Valmont Industries, Inc.§	800	71,296
		1,449,793
Marine (0.2%)		
Cal Dive International, Inc.*§	6,750	89,370
Genco Shipping & Trading, Ltd.§	1,100	60,236
		149,606
Media (0.5%)		
Entercom Communications Corp.§	2,300	31,487
Interactive Data Corp.	1,100	36,311
Journal Communications, Inc. Class A§	3,800	33,972
Macrovision Corp.*	3,900	71,487
Netflix, Inc.*§	4,000	106,480
Scholastic Corp.*§	4,100	143,049
		422,786
Metals & Mining (1.0%)		
Century Aluminum Co.*§	2,300	124,062
Cleveland-Cliffs, Inc.§	2,800	282,240
GrafTech International, Ltd.*§	11,600	205,900
Hecla Mining Co.*§	19,200	179,520
Massey Energy Co.	2,400	85,800
		877,522

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2007

	Number of Shares	Value
COMMON STOCKS		
United States		
Oil & Gas (1.7%)		
Alon USA Energy, Inc.§	2,100	$ 57,078
Bois d'Arc Energy, Inc.*	3,500	69,475
Comstock Resources, Inc.*§	3,300	112,200
Delek US Holdings, Inc.§	4,200	84,966
General Maritime Corp.§	5,200	127,140
Mariner Energy, Inc.*§	6,000	137,280
Petroleum Development Corp.*	4,200	248,346
PetroQuest Energy, Inc.*§	4,500	64,350
Rosetta Resources, Inc.*§	3,600	71,388
Stone Energy Corp.*	5,800	272,078
Swift Energy Co.*	5,800	255,374
		1,499,675
Paper & Forest Products (0.2%)		
Buckeye Technologies, Inc.*	4,200	52,500
Potlatch Corp.	3,800	168,872
		221,372
Personal Products (0.2%)		
Chattem, Inc.*	1,200	90,648
Elizabeth Arden, Inc.*§	3,300	67,155
		157,803
Pharmaceuticals (0.3%)		
Alnylam Pharmaceuticals, Inc.*§	2,200	63,976
Omrix Biopharmaceuticals, Inc.*§	1,800	62,532
Salix Pharmaceuticals, Ltd.*§	3,600	28,368
Sciele Pharma, Inc.*	5,200	106,340
		261,216
Real Estate (1.0%)		
Anthracite Capital, Inc.§	4,600	33,304
Arbor Realty Trust, Inc.§	1,600	25,776
Avatar Holdings, Inc.*§	800	33,456
Deerfield Capital Corp.§	4,100	32,800
Digital Realty Trust, Inc.§	2,000	76,740
Entertainment Properties Trust§	2,200	103,400
FelCor Lodging Trust, Inc.	4,700	73,273
First Industrial Realty Trust, Inc.§	900	31,140
Gramercy Capital Corp.§	1,400	34,034
Mid-America Apartment Communities, Inc.	1,900	81,225
National Health Investors, Inc.§	1,900	53,010
National Retail Properties, Inc.	1,500	35,070
Parkway Properties, Inc.§	2,100	77,658
Pennsylvania Real Estate Investment Trust	1,000	29,680
PS Business Parks, Inc.	700	36,785
RAIT Financail Trust§	3,000	25,860
Realty Income Corp.§	1,400	37,828
Redwood Trust, Inc.§	1,900	65,056
		886,095

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
United States		
Road & Rail (0.1%)		
Kansas City Southern*§	2,000	$ 68,660
Semiconductor Equipment & Products (1.6%)		
Advanced Energy Industries, Inc.*	7,200	94,176
AMIS Holdings, Inc.*§	4,400	44,088
Amkor Technology, Inc.*§	8,300	70,799
Cymer, Inc.*§	2,800	109,004
Entegris, Inc.*§	4,000	34,520
Kulicke and Soffa Industries, Inc.*	8,700	59,682
Microsemi Corp.*§	5,400	119,556
MKS Instruments, Inc.*	3,200	61,248
Monolithic Power Systems, Inc.*	3,200	68,704
ON Semiconductor Corp.*§	7,400	65,712
Photronics, Inc.*§	6,300	78,561
Semtech Corp.*§	9,600	148,992
Skyworks Solutions, Inc.*	11,600	98,600
Varian Semiconductor Equipment Associates, Inc.*§	2,550	94,350
Zoran Corp.*§	11,200	252,112
		1,400,104
Software (1.2%)		
Aspen Technology, Inc.*§	13,000	210,860
Blackbaud, Inc.§	1,200	33,648
Informatica Corp.*§	8,700	156,774
MicroStrategy, Inc. Class A*§	1,400	133,140
Progress Software Corp.*	3,400	114,512
SPSS, Inc.*§	1,900	68,229
Sybase, Inc.*§	2,600	67,834
Taleo Corp. Class A*§	3,700	110,186
THQ, Inc.*§	4,800	135,312
		1,030,495
Specialty Retail (0.7%)		
Aeropostale, Inc.*§	10,900	288,850
Buckle, Inc.§	1,100	36,300
Collective Brands, Inc.*§	2,200	38,258
Conn's, Inc.*§	1,500	25,665
Jo-Ann Stores, Inc.*§	1,800	23,544
Jos. A. Bank Clothiers, Inc.*§	5,300	150,785
Men's Wearhouse, Inc.	1,900	51,262
		614,664
Textiles & Apparel (0.5%)		
Crocs, Inc.*§	800	29,448
Deckers Outdoor Corp.*§	1,000	155,060
Fossil, Inc.*§	1,600	67,168
Kellwood Co.§	4,200	69,888
Warnaco Group, Inc.*§	4,300	149,640
		471,204

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2007

	Number of Shares	Value
COMMON STOCKS		
United States		
Tobacco (0.3%)		
Universal Corp.§	2,800	$ 143,416
Vector Group, Ltd.§	4,385	87,963
		231,379
Water Utilities (0.1%)		
American States Water Co.§	800	30,144
California Water Service Group§	900	33,318
		63,462
Wireless Telecommunication Services (0.3%)		
Centennial Communications Corp.*§	3,800	35,302
NTELOS Holdings Corp.§	4,800	142,512
Syniverse Holdings, Inc.*	2,200	34,276
USA Mobility, Inc.*§	2,600	37,180
		249,270
TOTAL UNITED STATES		33,020,990
TOTAL COMMON STOCKS (Cost $80,128,100)		85,246,009
PREFERRED STOCK (2.2%)		
Germany (2.2%)		
Healthcare Equipment & Supplies (2.2%)		
Draegerwerk AG (Cost $1,540,403)	26,000	1,912,785
SHORT-TERM INVESTMENT (28.6%)		
State Street Navigator Prime Portfolio§§ (Cost $24,814,299)	24,814,299	24,814,299
TOTAL INVESTMENTS AT VALUE (128.9%) (Cost $106,482,802)		111,973,093
LIABILITIES IN EXCESS OF OTHER ASSETS (-28.9%)		(25,088,738)
NET ASSETS (100.0%)		$ 86,884,355

* Non-income producing security.

§ 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 Small Cap Portfolio
Statement of Assets and Liabilities
December 31, 2007

Assets	
Investments at value, including collateral for securities on loan of $24,814,299 (Cost $106,482,802) (Note 2)	$111,973,093[1]
Foreign currency at value (cost $10,472)	10,548
Dividend receivable	68,845
Receivable for portfolio shares sold	38,791
Prepaid expenses and other assets	22,218
Total Assets	112,113,495
Liabilities	
Advisory fee payable (Note 3)	35,235
Administrative services fee payable (Note 3)	8,904
Payable upon return of securities loaned (Note 2)	24,814,299
Due to custodian	248,615
Payable for portfolio shares redeemed	26,500
Trustees' fee payable	804
Other accrued expenses payable	94,783
Total Liabilities	25,229,140
Net Assets	
Capital stock, $0.001 par value (Note 6)	6,171
Paid-in capital (Note 6)	100,227,813
Undistributed net investment income	1,053,844
Accumulated net realized loss on investments, futures contracts and foreign currency transactions	(19,894,287)
Net unrealized appreciation from investments and foreign currency translations	5,490,814
Net Assets	$ 86,884,355
Shares outstanding	6,171,400
Net asset value, offering price, and redemption price per share	$14.08

[1] Including $23,965,878 of securities on loan.

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Statement of Operations
For the Year Ended December 31, 2007

Investment Income (Note 2)	
Dividends	$ 2,337,188
Interest	67,345
Securities lending	230,386
Foreign taxes withheld	(83,122)
Total investment income	2,551,797
Expenses	
Investment advisory fees (Note 3)	1,339,060
Administrative services fees (Note 3)	148,588
Custodian fees	67,802
Printing fees (Note 3)	54,181
Audit and tax fees	27,888
Trustees' fees	19,857
Legal fees	12,077
Transfer agent fees	6,718
Insurance expense	5,103
Commitment fees (Note 4)	2,721
Interest expense (Note 4)	1,474
Miscellaneous expense	9,579
Total expenses	1,695,048
Less: fees waived (Note 3)	(225,230)
Net expenses	1,469,818
Net investment income	1,081,979
Net Realized and Unrealized Gain (Loss) from Investments, Futures Contracts and Foreign Currency Related Items	
Net realized gain from investments	5,960,734
Net realized loss from futures contracts	(3,264)
Net realized loss from foreign currency transactions	(9,509)
Net change in unrealized appreciation (depreciation) from investments	(9,600,599)
Net change in unrealized appreciation (depreciation) from futures contracts	2,592
Net change in unrealized appreciation (depreciation) from foreign currency translations	(151)
Net realized and unrealized loss from investments, futures contracts and foreign currency related items	(3,650,197)
Net decrease in net assets resulting from operations	$(2,568,218)

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Statements of Changes in Net Assets

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
From Operations		
Net investment income (loss)	$ 1,081,979	$ (27,488)
Net realized gain from investments, futures contracts and foreign currency transactions	5,947,961	22,310,658
Net change in unrealized appreciation (depreciation) from investments, futures contracts and foreign currency translations	(9,598,158)	(7,853,700)
Net increase (decrease) in net assets resulting from operations	(2,568,218)	14,429,470
From Capital Share Transactions (Note 6)		
Proceeds from sale of shares	8,774,027	21,903,845
Net asset value of shares redeemed	(38,426,851)	(46,535,898)
Net decrease in net assets from capital share transactions	(29,652,824)	(24,632,053)
Net decrease in net assets	(32,221,042)	(10,202,583)
Net Assets		
Beginning of year	119,105,397	129,307,980
End of year	$ 86,884,355	$119,105,397
Undistributed net investment income	$ 1,053,844	$ 1,351

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Financial Highlights
(For a Share of the Portfolio Outstanding Throughout Each Year)

	For the Year Ended December 31,				
	2007	2006	2005	2004	2003
Per share data					
Net asset value, beginning of year	$ 14.67	$ 12.95	$ 11.15	$ 9.45	$ 6.40
INVESTMENT OPERATIONS					
Net investment income (loss)	0.18	(0.00)[1]	(0.04)	(0.09)	(0.06)
Net gain (loss) on investments, futures contracts and foreign currency related items (both realized and unrealized)	(0.77)	1.72	1.84	1.79	3.11
Total from investment operations	(0.59)	1.72	1.80	1.70	3.05
Net asset value, end of year	$ 14.08	$ 14.67	$ 12.95	$ 11.15	$ 9.45
Total return[2]	(4.02)%	13.28%	16.14%	17.99%	47.66%
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (000s omitted)	$86,884	$119,105	$129,308	$110,110	$102,577
Ratio of expenses to average net assets	1.37%	1.40%	1.40%	1.40%	1.40%
Ratio of net investment income (loss) to average net assets	1.01%	(0.02)%	(0.39)%	(0.85)%	(0.94)%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.21%	0.16%	0.19%	0.17%	0.23%
Portfolio turnover rate	76%	117%	75%	79%	86%

[1] This amount represents less than $(0.01) per share.

[2] 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 years shown, total returns would have been lower. Total returns do not reflect charges and expenses attributable to any particular variable contract or plan.

See Accompanying Notes to Financial Statements.

Note 1. Organization

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 Small Cap 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.

Note 2. Significant Accounting Policies

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. 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. Investments in mutual funds are valued at the mutual fund's closing net asset value per share on the day of valuation. 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. When fair-value pricing is employed,

Note 2. Significant Accounting Policies

the prices of securities used by a portfolio to calculate its net asset value may differ from quoted or published prices for the same 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 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 Portfolio's intention to 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

Note 2. Significant Accounting Policies

assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

G) SHORT TERM INVESTMENTS — The Portfolio, together with other funds/portfolios advised by Credit Suisse Asset Management, LLC ("Credit Suisse"), 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 Credit Suisse. 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 forward 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, 2007, the Portfolio had no open forward foreign currency contracts.

I) FUTURES — The Portfolio may enter into futures contracts to the extent permitted by its investment policies and objectives. Upon entering into a futures contract, the Portfolio is required to deposit cash or pledge U.S. Government securities as initial margin. Subsequent payments, which are dependent on the daily fluctuations in the value of the underlying instrument, are made or received by the Portfolio each day (daily variation margin) and are recorded as unrealized gains or losses until the contracts are closed.

When the contracts are closed, the Portfolio records a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transactions and the Portfolio's basis in the contracts. Risks of entering into futures contracts for hedging purposes include the possibility that a change in the value of the contract may not correlate with the changes in the value of the underlying instruments. In addition, the purchase of a futures contract involves the risk that the Portfolio could lose more than the original margin deposit and

Note 2. Significant Accounting Policies

subsequent payments required for a futures transaction. At December 31, 2007, the Portfolio had no open futures contracts.

J) 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 Credit Suisse and may be invested in a variety of investments, including certain Credit Suisse-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.

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. During the year ended December 31, 2007, total earnings from the Portfolio's investment in cash collateral received in connection with securities lending arrangements was $1,601,813, of which $1,317,827 was rebated to borrowers (brokers). The Portfolio retained $230,386 in income from the cash collateral investment, and SSB, as lending agent, was paid $53,600. The Portfolio may also be entitled to certain minimum amounts of income from its securities lending activities. Securities lending income is accrued as earned.

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 is earned or gains are realized.

Note 2. 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 3. Transactions with Affiliates and Related Parties

Credit Suisse serves as investment adviser for the Portfolio. For its investment advisory services, Credit Suisse 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, 2007, investment advisory fees earned and voluntarily waived for the Portfolio were $1,339,060 and $225,230, respectively. Credit Suisse will not recapture from the Portfolio any fees it waived during the fiscal year ended December 31, 2007. Fee waivers and reimbursements are voluntary and may be discontinued by Credit Suisse at any time.

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

Credit Suisse Asset Management Securities, Inc. ("CSAMSI"), an affiliate of Credit Suisse, 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 0.09% of the Portfolio's average daily net assets. For the year ended December 31, 2007, co-administrative services fees earned by CSAMSI were $96,412.

For its co-administrative services, SSB receives a fee, exclusive of out-of-pocket expenses, 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. For the year ended December 31, 2007, co-administrative services fees earned by SSB (including out-of-pocket expenses) were $52,176.

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

Note 3. Transactions with Affiliates and Related Parties

Merrill Corporation ("Merrill"), an affiliate of Credit Suisse, has been engaged by the Portfolio to provide certain financial printing and fulfillment services. For the year ended December 31, 2007, Merrill was paid $23,103 for its services to the Portfolio.

Note 4. Line of Credit

The Portfolio, together with other funds/portfolios advised by Credit Suisse (collectively, the "Participating Funds"), participates in a $50 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, 2007, the Portfolio had no loans outstanding under the Credit Facility. During the year ended December 31, 2007, the Portfolio had borrowings under the Credit Facility as follows:

Average Daily Loan Balance	Weighted Average Interest Rate%	Maximum Daily Loan Outstanding
$1,841,600	5.765%	$2,148,000

Note 5. Purchases and Sales of Securities

For the year ended December 31, 2007, purchases and sales of investment securities (excluding short-term investments) were $80,443,165 and $107,481,494, respectively.

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:

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
Shares sold	576,327	1,576,665
Shares redeemed	(2,523,446)	(3,440,797)
Net decrease	(1,947,119)	(1,864,132)

Note 6. Capital Share Transactions

On December 31, 2007, the number of shareholders that held 5% or more of the outstanding shares of the Portfolio was as follows:

Number of Shareholders	Approximate Percentage of Outstanding Shares
5	79%

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.

The tax basis components of distributable earnings differ from the amounts reflected in the Statement of Assets and Liabilities by temporary book/tax differences. These differences are primarily due to losses deferred on wash sales, mark to market of forwards contracts, unused capital loss carryforwards, dividends received from Real Estate Investment Trusts and current year post October loss deferred. At December 31, 2007, the components of distributable earnings on a tax basis by the Portfolio were as follows:

Undistributed ordinary income	$ 1,052,166
Accumulated net realized loss	(19,528,575)
Unrealized appreciation	5,305,362
Deferral of post-October capital losses	(178,582)
	$(13,349,629)

At December 31, 2007, the Portfolio had capital loss carryforwards available to offset possible future capital gains as follows:

Expires December 31,	
2010	2011
$14,650,377	$4,878,198

During the tax year ended December 31, 2007, the Portfolio utilized $6,283,166 of the capital loss carryforwards.

It is uncertain that the Portfolio will realize the full benefit of these losses prior to expiration.

At December 31, 2007, 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

Note 7. Federal Income Taxes

investments for those securities having and excess of cost over value and the net unrealized appreciation from investments were $106,668,361, $17,749,369, $(12,444,637) and $5,304,732, respectively.

At December 31, 2007, the Portfolio reclassified $7,044 to accumulated net realized loss from investments and $22,442 to paid in capital from undistributed net investment income, adjusting for current period permanent book/tax differences which arose principally from differing book/tax treatments of foreign currency reclasses, income/(loss) from investment in partnerships and dividends received from Real Estate Investment Trusts. 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.

Note 9. Recent Accounting Pronouncements

During June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48" or the "Interpretation"), *Accounting for Uncertainty in Income Taxes — an interpretation of FASB statement 109.* FIN 48 supplements FASB Statement 109, *Accounting for Income Taxes,* by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 prescribes a comprehensive model for how a fund should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the fund has taken or expects to take on a tax return. FIN 48 requires that the tax effects of a position be recognized only if it is "more likely than not" to be sustained based solely on its technical merits. Management must be able to conclude that the tax law, regulations, case law, and other objective information regarding the technical merits sufficiently support the position's sustainability with a likelihood of more than 50 percent. During the period ended December 31, 2007, Management has adopted FIN 48. There was no material impact to the financial statements or disclosures thereto as a result of the adoption of this pronouncement.

Note 9. Recent Accounting Pronouncements

On September 20, 2006, the FASB released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years, beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2007, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required in subsequent reports.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Credit Suisse Trust and Shareholders of
Credit Suisse Trust — Global Small Cap 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 Small Cap Portfolio (the "Portfolio"), a portfolio of the Credit Suisse Trust, at December 31, 2007, 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, 2007 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
February 25, 2008

In approving the renewal of the current Advisory and Sub-Advisory Agreements, the Board of Trustees, including the Independent Trustees, at a meeting held on November 13 and 14, 2007, considered the following factors with respect to the Global Small Cap Portfolio (the "Portfolio"):

Investment Advisory Fee Rates

The Board reviewed and considered the contractual advisory fee rate of 1.25% for the Portfolio ("Contractual Advisory Fee") in light of the extent and quality of the advisory services provided by Credit Suisse Asset Management, LLC ("Credit Suisse") or Credit Suisse Asset Management Limited ("Credit Suisse U.K."), Credit Suisse Asset Management Limited ("Credit Suisse Australia") and Credit Suisse Asset Management Limited ("Credit Suisse Japan"). The Board also reviewed and considered the fee waivers and/or expense reimbursement arrangements currently in place for the Portfolio and considered the actual fee rate of 1.09% paid by the Portfolio after taking waivers and reimbursements into account ("Net Advisory Fee"). The Board acknowledged that voluntary fee waivers and reimbursements could be discontinued at any time. In addition, the Board noted that the compensation paid to Credit Suisse U.K., Credit Suisse Australia and Credit Suisse Japan (collectively, the "Sub-Advisers") does not increase the fees or expenses otherwise incurred by the Portfolio's shareholders.

Additionally, the Board received and considered information comparing the Portfolio's Contractual Advisory Fee, Net Advisory Fee and the Portfolio's overall expenses with those of funds in both the relevant expense group ("Expense Group") and universe of funds (the "Expense Universe") provided by Lipper Inc., an independent provider of investment company data.

Nature, Extent and Quality of the Services under the Advisory and Sub-Advisory Agreements

The Board received and considered information regarding the nature, extent and quality of services provided to the Portfolio by Credit Suisse under the Advisory Agreement and by the Sub-Advisers under the Sub-Advisory Agreements. The Board also noted information received at regular meetings throughout the year related to the services rendered by Credit Suisse and the Sub-Advisers. The Board reviewed background information about Credit Suisse and the Sub-Advisers, including their respective Forms ADV. The Board considered the background and experience of both Credit Suisse's and the Sub-Advisers' senior management and the expertise of, and the amount of attention given to the Portfolio by, senior personnel of Credit Suisse and the Sub-Advisers. With respect to the Sub-Advisers, the Board also considered their expertise in managing the types of global investments that the Portfolio utilizes in its investment strategy. In addition, the Board reviewed the qualifications, backgrounds and responsibilities of the portfolio management team primarily responsible for the day-to-day portfolio management of the Portfolio and the extent of the resources devoted to research and analysis of actual and potential investments. The Board also received and considered information about the nature, extent and quality of services and fee rates offered to other Credit Suisse clients for comparable services.

In approving the Sub-Advisory Agreements, the Board also considered the benefits of retaining Credit Suisse's United Kingdom, Australian and Japanese affiliates given the increased complexity of the domestic and international securities markets, specifically that retention of Credit Suisse U.K., Credit Suisse Australia and Credit Suisse Japan expands the universe of companies and countries from which investment opportunities could be sought and enhances the ability of the Portfolio to obtain the best price and execution on trades in international markets.

Portfolio Performance

The Board received and considered the performance results of the Portfolio over time, along with comparisons, both to the relevant performance group ("Performance Group") and universe of funds ("Performance Universe") for the Portfolio. The Board was provided with a description of the methodology used to arrive at the funds included in the Performance Group and the Performance Universe.

Credit Suisse Profitability

The Board received and considered a profitability analysis of Credit Suisse based on the fees payable under the Advisory Agreement for the Portfolio, including any fee waivers or fee caps, as well as other relationships between the Portfolio on the one hand and Credit Suisse affiliates on the other. The Board received profitability information for the other funds in the Credit Suisse family of funds.

Economies of Scale

The Board considered whether economies of scale in the provision of services to the Portfolio were being passed along to the shareholders. Accordingly, the Board considered whether alternative fee structures (such as breakpoint fee structures) would be more appropriate or reasonable taking into consideration economies of scale or other efficiencies that might accrue from increases in the Portfolio's asset levels.

Other Benefits to Credit Suisse

The Board considered other benefits received by Credit Suisse, the Sub-Advisers and their affiliates as a result of their relationships with the Portfolio. Such benefits include, among others, research arrangements with brokers who execute transactions on behalf of the Portfolio, administrative and brokerage relationships with affiliates of Credit Suisse and the Sub-Advisers and benefits potentially derived from an increase in Credit Suisse's and the Sub-Advisers' businesses as a result of their relationship with the Portfolio (such as the ability to market to shareholders other financial products offered by Credit Suisse, the Sub-Advisers and their affiliates).

The Board considered the standards applied in seeking best execution, whether and to what extent soft dollar credits are sought and how any such credits are utilized, any benefits that may be achieved by using an affiliated broker and the existence of quality controls applicable to brokerage allocation procedures. The Board also reviewed Credit Suisse's and the Sub-Advisers' method for allocating portfolio investment opportunities among their advisory clients.

Conclusions

In selecting Credit Suisse and the Sub-Advisers, and approving the Advisory Agreement and the investment advisory fee under such agreement and the Sub-Advisory Agreements, the Board concluded that:

- Both the Contractual and Net Advisory Fees were at the high end in the Portfolio's Expense Group. The Board considered the fee to be reasonable taking into account that Credit Suisse agreed to an increased fee waiver and the relatively small size of the Portfolio.
- The Portfolio's performance was below most of the funds in its Performance Group and Performance Universe for most of the periods reviewed. The Board noted that performance for periods prior to December 2006 was not particularly relevant since the strategy for the

U.S. portion of the Portfolio had changed to a quantitative strategy. The Board further noted that a new portfolio manager for the non-U.S. portion of the Portfolio had been appointed in October 2007. The Board determined it would continue to monitor steps undertaken by Credit Suisse to improve performance.

- Aside from performance (as described above), the Board was satisfied with the nature and extent of the investment advisory services provided to the Portfolio by Credit Suisse and the Sub-Advisers and that, based on dialogue with management and counsel, the services provided by Credit Suisse under the Advisory Agreement and by the Sub-Advisers under the Sub-Advisory Agreements are typical of, and consistent with, those provided to similar mutual funds by other investment advisers.
- In light of the costs of providing investment management and other services to the Portfolio and Credit Suisse's ongoing commitment to the Portfolio and willingness to waive fees and expenses, the profits and other ancillary benefits that Credit Suisse and its affiliates received were considered reasonable.
- Credit Suisse's profitability based on fees payable under the Advisory Agreement was reasonable in light of the nature, extent and quality of the services provided to the Portfolio thereunder.
- In light of the fee waiver and the relatively small size of the Portfolio, the Portfolio's current fee structure (without breakpoints) was considered reasonable.

No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve the Advisory Agreement and the Sub-Advisory Agreements. The Independent Trustees were advised by separate independent legal counsel throughout the process.

Name, Address (Year of Birth)	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Independent Trustees					
Enrique Arzac c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 (1941)	Trustee, Nominating Committee Member and Audit Committee Chairman	Since 2005	Professor of Finance and Economics, Graduate School of Business, Columbia University since 1971.	35	Director of Epoch Holding Corporation (an investment management and investment advisory services company); Director of The Adams Express Company (a closed-end investment company); Director of Petroleum and Resources Corporation (a closed-end investment company).
Jeffrey E. Garten[2] Box 208200 New Haven, Connecticut 06520-8200 (1946)	Trustee, Nominating and Audit Committee Member	Since 1998	The Juan Trippe Professor in the Practice of International Trade, Finance and Business from July 2005 to present; Partner and Chairman of Garten Rothkopf (consulting firm) from October 2005 to present; Dean of Yale School of Management from November 1995 to June 2005.	28	Director of Aetna, Inc. (insurance company); Director of CarMax Group (used car dealers); Director of Alcan, Inc. (smelting and refining of nonferrous metals company).

[1] Each Trustee and Officer serves until his or her respective successor has been duly elected and qualified.

[2] 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 reappointed on December 21, 2000.

Name, Address (Year of Birth)	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Independent Trustees					
Peter F. Krogh SFS/ICC 702 Georgetown University Washington, DC 20057 (1937)	Trustee, Nominating 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.	28	Director of Carlisle Companies Incorporated (diversified manufacturing company).
Steven N. Rappaport Lehigh Court, LLC 555 Madison Avenue 29th Floor New York, New York 10022 (1948)	Chairman of the Board of Trustees, Nominating Committee Chairman and Audit Committee Member	Trustee since 1999 and Chairman since 2005	Partner of Lehigh Court, LLC and RZ Capital (private investment firms) from July 2002 to present.	35	Director of iCAD, Inc. (surgical and medical instruments and apparatus company); Director of Presstek, Inc. (digital imaging technologies company); Director of Wood Resources, LLC. (plywood manufacturing company).
Interested Trustee					
Michael E. Kenneally[3] c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 (1954)	Trustee	Since 2004	Chairman and Global Chief Executive Officer of Credit Suisse from March 2003 to July 2005; Chairman and Chief Investment Officer of Banc of America Capital Management from 1998 to March 2003.	28	None

[3] Mr. Kenneally is a Trustee who is an “interested person” of the Trust as defined in the Investment Company Act of 1940, as amended, because he was an officer of Credit Suisse within the last two fiscal years.

Name, Address (Year of Birth)	Position(s) Held with Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years
Officers			
Lawrence D. Haber c/o Credit Suisse Asset Management, LLC. Attn: General Counsel Eleven Madison Avenue New York, New York 10010 (1951)	Chief Executive Officer and President	Since 2007	Managing Director and Chief Operating Officer of Credit Suisse; Member of Credit Suisse's Management Committee; Chief Financial Officer of Merrill Lynch Investment Managers from 1997 to 2003.
Michael A. Pignataro Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1959)	Chief Financial Officer	Since 1999	Director and Director of Fund Administration of Credit Suisse; Associated with Credit Suisse or its predecessor since 1984; Officer of other Credit Suisse Funds.
Emidio Morizio Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1966)	Chief Compliance Officer	Since 2004	Director and Global Head of Compliance of Credit Suisse; Associated with Credit Suisse since July 2000; Officer of other Credit Suisse Funds.
J. Kevin Gao Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1967)	Chief Legal Officer since 2006, Vice President and Secretary since 2004	Since 2004	Director and Legal Counsel of Credit Suisse; Associated with Credit Suisse since July 2003; Associated with the law firm of Willkie Farr & Gallagher LLP from 1998 to 2003; Officer of other Credit Suisse Funds.
Robert Rizza Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1965)	Treasurer	Since 2006	Vice President of Credit Suisse; Associated with Credit Suisse 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 Small Cap Portfolio
Proxy Voting and Portfolio Holdings Information (unaudited)

Information regarding how the Portfolio voted proxies related to its portfolio securities during the 12 month period ended June 30 of each year, 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.credit-suisse.com/us
- On the website of the Securities and Exchange Commission, 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 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 1-202-551-8090.

CREDIT SUISSE

P.O. Box 55030, Boston, MA 02205-5030
800-222-8977 ■ www.credit-suisse.com/us

CREDIT SUISSE ASSET MANAGEMENT SECURITIES, INC., DISTRIBUTOR. TRGSC-AR-1207

Dreyfus Investment Portfolios, MidCap Stock Portfolio

ANNUAL REPORT December 31, 2007

Dreyfus
A BNY Mellon Company℠

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The Portfolio

A LETTER FROM THE CEO

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, 2007, through December 31, 2007.

Looking back, 2007 was a year of significant change for the stock market. Turmoil in the sub-prime mortgage market, declining housing values and soaring energy prices sparked a "flight to quality" in which investors reassessed their attitudes toward risk. As a result, smaller, more speculative companies that had led the stock market over the past several years lost value over the second half of the year, while shares of larger, multinational growth companies returned to favor. Many financial services and consumer discretionary companies were hurt by repercussions from the sub-prime lending crisis and economic downturn, but energy and basic materials producers generally moved higher along with underlying commodity prices.

The turbulence of 2007 reinforced a central principle of successful investing: diversification. Investors with broad exposure to the world's stock and bond markets were better protected from the full impact of market volatility in areas that, earlier in the year, were among the bright spots at the time. As we look ahead, we believe that now is the perfect time to meet with your financial advisor, who can help you plan and diversify your investment portfolio in a way that manages the potential opportunities and risks that may continue to arise in 2008.

For information about how the portfolio performed during the reporting period, as well as market perspectives, we have provided a Discussion of Performance given by the Portfolio Managers.

Thank you for your continued confidence and support.

Sincerely,

Thomas F. Eggers
Chief Executive Officer
The Dreyfus Corporation
January 15, 2008

DISCUSSION OF PERFORMANCE

For the period of January 1, 2007, through December 31, 2007, as provided by the Franklin Portfolio Associates Midcap Team, Portfolio Managers

Market and Portfolio Performance Overview

While U.S. and global economic growth propelled stocks higher during the first half of 2007, equity markets slumped during the second half of the year under pressure from slowing growth and the sub-prime credit crunch. Yet, most broad stock indices remained in positive territory for the year as a whole, and midcap stocks generally outperformed their large- and small-cap counterparts. During the reporting period, Dreyfus Investment Portfolios, MidCap Stock Portfolio benefited from this trend, but disappointing individual security selections and a slight tilt toward value-oriented stocks caused its returns to lag its benchmark.

For the 12-month period ended December 31, 2007, the portfolio's Initial shares produced a total return of 1.50%, and the portfolio's Service shares produced a total return of 1.39%.[1] This compares with the total return of 7.98% provided by the portfolio's benchmark, the Standard & Poor's MidCap 400 Index (the "S&P 400 Index"), for the same period.[2]

Effective October 1, 2007, Franklin Portfolio Associates' Midcap Team stepped in as the portfolio's investment managers.

The Portfolio's Investment Approach

The fund seeks capital appreciation. To pursue its goal, the fund normally invests at least 80% of its assets in growth and value stocks of midsize companies. A proprietary quantitative model considers more than 40 factors to identify and rank stocks based on fundamental momentum, relative value, future value, long-term growth and other factors. We then focus on "bottom-up" stock selection to construct a portfolio with exposures to industries and market capitalizations that are similar to the benchmark's composition. We seek to overweight more attractive stocks and underweight or not hold stocks that have been ranked as less attractive.

Strong Global Demand Fueled Gains in Some Sectors

The mildly positive results posted by the U.S. stock market in 2007 masked heightened volatility over the second half of the year, when declining U.S. housing markets, soaring energy prices and a credit crunch emanating from the bond market's sub-prime mortgage crisis led to concerns that the U.S. economy might enter a recession. In contrast to the flagging U.S. economy, global demand for energy, basic materials and certain products and services remained quite strong throughout the reporting period, and the portfolio's investments in several sectors clearly benefited from global economic growth.

For example, the portfolio's basic materials investments roughly matched the benchmark's robust gains. Diversified chemical company Lyondell Chemical and agricultural chemical maker Terra Industries both delivered markedly positive results. Robust global demand also bolstered returns from other holdings, such as engine and equipment makers Cummins and AGCO. Similarly, online travel services company priceline.com and educational services provider Apollo Group rose on the strength of international expansion prospects. Lyondell Chemical and Cummins were sold during the reporting period.

While the portfolio's energy holdings also advanced, these gains fell short of the benchmark's energy component, primarily due to an emphasis on holdings we considered reasonably priced, such as drilling contractor Unit Corp. and oilfield services equipment provider Superior Energy Services. Unit Corp. was sold during the reporting period. The market tended to reward richly valued, growth-oriented energy stocks to a greater degree than the portfolio's value-tilted holdings.

Slowing Growth Dampened Gains in Other Areas

While most other market sectors produced positive returns, their gains were generally modest. Nonetheless, some individual holdings from a variety of sectors and industries bolstered returns relative to the benchmark. These included digital map information provider NAVTEQ, which posted better-than-expected earnings and received a takeover offer, and biotechnology developer Genzyme, which reported strong third quarter earnings. The portfolio's performance further benefited from the timely purchase and sale of shares in specialty footwear maker Crocs. All three of these holdings were sold during the reporting period.

On the other hand, a troubled domestic housing market and slowing U.S. economic growth took a disproportionate toll on several of the portfolio's holdings. Notable examples included homebuilder Lennar and employment services provider Manpower. In the hard-hit consumer cyclical area, retailers Coach and Big Lots detracted significantly from returns after cutting earnings forecasts. Other underperforming holdings compared to the benchmark included biotechnology company Sepracor, computer hardware maker Lexmark International, Inc., and student loan services provider First Marblehead. Lennar, Sepracor and Lexmark were sold during the reporting period.

Implementing Our Disciplined Strategy

When the portfolio's current management team took the reins in October 2007, we began aligning the portfolio's holdings more closely with our quantitative portfolio construction process and our philosophy of achieving an even blend of value and growth/momentum characteristics in the portfolio. This remains an ongoing process as we seek to minimize transaction costs while working to improve the portfolio's relative performance on the basis of our investment approach.

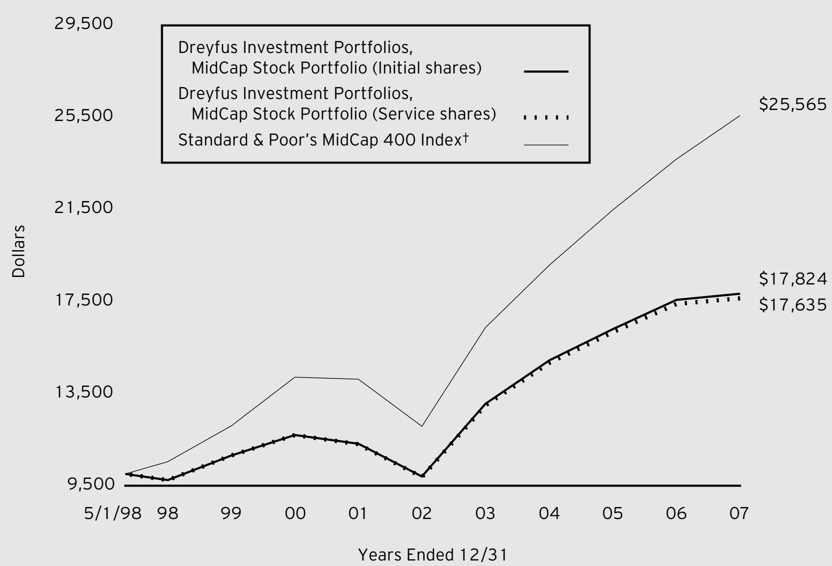
As of December 31, 2007, the portfolio's profile with regard to sector weightings, industry weightings, value/momentum weightings and average capitalization size are relatively neutral compared with the benchmark. At the same time, we have reduced the total number of portfolio holdings from 226 at the beginning of October 2007 to 204 at the end of the reporting period, with an eye toward continuing to modestly reduce the number of holdings over the coming months. These changes are consistent with our goal of emphasizing individual stock selections as the key determining factor in the portfolio's relative performance.

January 15, 2008

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.

1 *Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption, 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 certain portfolio expenses by The Dreyfus Corporation pursuant to an agreement in effect through December 31, 2008, at which time it may be extended, terminated or modified. Had these expenses not been absorbed, the portfolio's returns would have been lower.*

2 *SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, where applicable, capital gain distributions. The Standard & Poor's MidCap 400 Index is a widely accepted, unmanaged total return index measuring the performance of the midsize-company segment of the U.S. market. Franklin Portfolio Associates is an independently managed, wholly owned subsidiary of The Bank of New York Mellon Corporation. Franklin Portfolio Associates has no affiliation to the Franklin Templeton Group of Funds or Franklin Resources, Inc. The portfolio maangers are dual employees of Franklin Portfolio Associates and Dreyfus.*



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

Average Annual Total Returns *as of 12/31/07*

	Inception Date	1 Year	5 Years	From Inception
Initial shares	**5/1/98**	**1.50%**	**12.48%**	**6.16%**
Service shares	**5/1/98**	**1.39%**	**12.30%**	**6.04%**

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, 2007 (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. Unlike a mutual fund, the Index is not subject to charges, fees and other expenses. Investors cannot invest directly in any index. 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, 2007 to December 31, 2007. It also shows how much a $1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

Expenses and Value of a $1,000 Investment
assuming actual returns for the six months ended December 31, 2007

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 3.88	$ 4.36
Ending value (after expenses)	$922.20	$921.80

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.

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended December 31, 2007

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.08	$ 4.58
Ending value (after expenses)	$1,021.17	$1,020.67

† *Expenses are equal to the portfolio's annualized expense ratio of .80% for Initial shares and .90% for Service shares, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

December 31, 2007

Common Stocks—98.7%	Shares		Value ($)
Consumer Discretionary—13.6%			
Aeropostale	86,575	a,b	2,294,237
American Eagle Outfitters	29,900		621,023
American Greetings, Cl. A	80,300		1,630,090
AnnTaylor Stores	17,550	b	448,577
Apollo Group, Cl. A	13,250	a,b	929,488
AutoZone	14,500	b	1,738,695
Big Lots	39,800	a,b	636,402
Brinker International	46,250		904,650
Choice Hotels International	35,550	a	1,180,260
Coach	38,100	b	1,165,098
Dollar Tree Stores	91,400	b	2,369,088
EchoStar Communications, Cl. A	46,700	b	1,761,524
Expedia	45,950	a,b	1,452,939
Family Dollar Stores	79,150	a	1,522,054
GameStop, Cl. A	59,300	b	3,683,123
Gentex	106,750		1,896,948
Hanesbrands	40,650	a,b	1,104,460
Harley-Davidson	23,450	a	1,095,349
Hasbro	58,250	a	1,490,035
Idearc	26,350	a	462,706
Kelly Services, Cl. A	40,300		751,998
NVR	2,125	a,b	1,113,500
Phillips-Van Heusen	28,900		1,065,254
Priceline.com	15,750	a,b	1,809,045
Ross Stores	41,500	a	1,061,155
Scholastic	29,800	a,b	1,039,722
Shaw Communications, Cl. B	23,350	a	552,928
Snap-On	23,700		1,143,288
Sotheby's	48,400	a	1,844,040
Tiffany & Co.	26,900		1,238,207
Warnaco Group	50,050	b	1,741,740
Wynn Resorts	10,600		1,188,578
			42,936,201

Common Stocks (continued)	Shares		Value ($)
Consumer Staples—2.5%			
Herbalife	23,950		964,706
Hormel Foods	76,050		3,078,504
NBTY	39,250	[b]	1,075,450
Universal	52,300	[a]	2,678,806
			7,797,466
Energy—9.0%			
Chesapeake Energy	9,500	[a]	372,400
Cimarex Energy	63,550	[a]	2,702,782
Frontier Oil	38,850		1,576,533
Global Industries	59,300	[b]	1,270,206
Grant Prideco	22,750	[b]	1,262,852
Hess	11,950		1,205,277
Holly	22,650		1,152,658
National Oilwell Varco	21,000	[b]	1,542,660
Newfield Exploration	17,300	[b]	911,710
Noble Energy	71,700		5,701,584
Patterson-UTI Energy	47,600	[a]	929,152
Pride International	25,150	[b]	852,585
Sunoco	18,300		1,325,652
Superior Energy Services	53,350	[b]	1,836,307
Swift Energy	26,400	[b]	1,162,392
Tesoro	32,050	[a]	1,528,785
Tidewater	51,150	[a]	2,806,089
Western Refining	20,850	[a]	504,778
			28,644,402
Financial—13.4%			
AMB Property	13,150		756,914
American Financial Group	66,275		1,914,022
AmeriCredit	55,800	[a,b]	713,682
Annaly Capital Management	56,300		1,023,534
CapitalSource	43,200	[a]	759,888
Cincinnati Financial	32,600		1,289,004
CIT Group	29,800		716,094
Endurance Specialty Holdings	26,400	[a]	1,101,672
Everest Re Group	26,300		2,640,520
Federated Investors, Cl. B	23,850		981,666
First Marblehead	21,850	[a]	334,305

Common Stocks (continued)	Shares		Value ($)
Financial (continued)			
FirstMerit	44,500	a	890,445
Harris	5,800		363,544
HCC Insurance Holdings	115,650		3,316,842
Hospitality Properties Trust	125,100		4,030,722
Host Hotels & Resorts	65,000		1,107,600
Jefferies Group	75,350	a	1,736,817
Jones Lang LaSalle	45,400		3,230,664
M & T Bank	13,950		1,137,901
National Retail Properties	33,000	a	771,540
Nationwide Financial Services, Cl. A	30,250		1,361,552
Philadelphia Consolidated Holding	28,300	b	1,113,605
Phoenix Cos	66,250		786,387
Potlatch	18,800		835,472
ProLogis	42,050		2,665,129
Reinsurance Group of America	16,400	a	860,672
SEI Investments	45,600		1,466,952
SVB Financial Group	30,200	a	1,522,080
Unum Group	63,850		1,518,991
W.R. Berkley	36,100		1,076,141
XL Capital, Cl. A	10,750		540,832
			42,565,189
Health Care—11.1%			
AmerisourceBergen	38,500		1,727,495
Apria Healthcare Group	81,700	b	1,762,269
Cephalon	21,550	a,b	1,546,428
CIGNA	40,650		2,184,124
Coventry Health Care	14,000	b	829,500
Dentsply International	83,400		3,754,668
Edwards Lifesciences	31,500	a,b	1,448,685
Endo Pharmaceuticals Holdings	24,200	b	645,414
Health Net	40,100	b	1,936,830
Henry Schein	30,600	b	1,878,840
HLTH	102,300	a,b	1,370,820
Humana	26,100	b	1,965,591
Intuitive Surgical	10,700	b	3,472,150
Invitrogen	45,850	b	4,282,849
King Pharmaceuticals	89,100	b	912,384

Common Stocks (continued)	Shares		Value ($)
Health Care (continued)			
Lincare Holdings	65,500	a,b	2,302,980
Medicis Pharmaceutical, Cl. A	29,050	a	754,428
STERIS	77,500	a	2,235,100
			35,010,555
Industrial—18.0%			
Acuity Brands	16,150	a	726,750
AGCO	38,850	b	2,641,023
Allied Waste Industries	137,450	b	1,514,699
Applied Industrial Technologies	43,850		1,272,527
Arkansas Best	22,800	a	500,232
Avis Budget Group	68,100	b	885,300
Con-way	35,250		1,464,285
Deluxe	42,050		1,383,024
Dun & Bradstreet	27,900		2,472,777
EMCOR Group	42,750	b	1,010,183
Equifax	45,500		1,654,380
Fastenal	16,250	a	656,825
Fluor	11,100		1,617,492
Gardner Denver	76,300	b	2,517,900
GATX	42,200		1,547,896
Granite Construction	33,750		1,221,075
Harsco	10,550		675,939
Herman Miller	46,250		1,498,038
HNI	24,400	a	855,464
Hubbell, Cl. B	57,250		2,954,100
Jacobs Engineering Group	18,300	b	1,749,663
Manitowoc	30,400		1,484,432
Manpower	34,200		1,945,980
MSC Industrial Direct, Cl. A	40,550		1,641,059
Northwest Airlines	37,550	a,b	544,851
Oshkosh Truck	30,700	a	1,450,882
Republic Services	39,175		1,228,136
Rockwell Automation	23,000	a	1,586,080
Ryder System	18,100	a	850,881
SPX	27,550	a	2,833,518
Steelcase, Cl. A	56,600		898,242
Teleflex	80,050		5,043,951

Common Stocks (continued)	Shares		Value ($)
Industrial (continued)			
Thomas & Betts	21,300	b	1,044,552
Trinity Industries	22,900		635,704
W.W. Grainger	23,400		2,047,968
Wabtec	39,450		1,358,658
Werner Enterprises	37,500	a	638,625
Zebra Technologies, Cl. A	32,400	b	1,124,280
			57,177,371
Information Technology—14.2%			
3Com	114,300	a,b	516,636
Activision	61,400	b	1,823,580
ADC Telecommunications	166,400	a,b	2,587,520
ADTRAN	23,900	a	510,982
ASM International	35,100	a	840,645
ASML Holding (NY Shares)	41,200	a	1,289,148
Avnet	22,800	b	797,316
AVX	58,850	a	789,767
CA	52,100		1,299,895
Cadence Design Systems	71,550	b	1,217,066
CommScope	75,200	b	3,700,592
Computer Sciences	25,000	b	1,236,750
Dolby Laboratories, Cl. A	18,050	b	897,446
Dycom Industries	65,400	b	1,742,910
FactSet Research Systems	24,250		1,350,725
Intersil, Cl. A	43,200		1,057,536
Lam Research	67,300	b	2,909,379
MasterCard, Cl. A	4,600	a	989,920
McAfee	77,200	b	2,895,000
Microchip Technology	63,050	a	1,981,031
NCR	34,100	b	855,910
Novell	162,600	b	1,117,062
Novellus Systems	54,650	a,b	1,506,701
Parametric Technology	52,200	b	931,770
Tech Data	43,400	b	1,637,048
Teradata	34,100	b	934,681
Total System Services	56,750	a	1,589,000
Vishay Intertechnology	61,900	b	706,279
Western Digital	94,950	b	2,868,440

Common Stocks (continued)	Shares		Value ($)
Information Technology (continued)			
Xerox	94,150		1,524,289
Zoran	45,950	a,b	1,034,335
			45,139,359
Materials—8.3%			
AK Steel Holding	53,700	b	2,483,088
Celanese, Ser. A	27,350		1,157,452
CF Industries Holdings	15,200		1,672,912
Church & Dwight	18,300		989,481
Commercial Metals	25,200		742,140
Crown Holdings	61,300	a,b	1,572,345
Eastman Chemical	24,900		1,521,141
International Paper	39,600		1,282,248
NOVA Chemicals	34,250		1,109,700
OM Group	16,450	b	946,533
Owens-Illinois	20,100	b	994,950
Packaging Corp. of America	25,550		720,510
Pactiv	46,950	b	1,250,279
Reliance Steel & Aluminum	16,900		915,980
RPM International	74,800		1,518,440
Sonoco Products	48,700		1,591,516
Terra Industries	108,700	b	5,191,512
Worthington Industries	36,100	a	645,468
			26,305,695
Telecommunication Services—.4%			
Windstream	99,100		**1,290,282**
Utilities—8.2%			
AGL Resources	80,450		3,028,138
Alliant Energy	59,650		2,427,159
Atmos Energy	33,750		946,350
Constellation Energy Group	6,400		656,192
Northeast Utilities	78,600		2,460,966
ONEOK	34,700		1,553,519
Pepco Holdings	85,350		2,503,316
Portland General Electric	31,000		861,180
Sempra Energy	25,950		1,605,786
Sierra Pacific Resources	207,900		3,530,142
Southern Union	83,100		2,439,816

Common Stocks (continued)	Shares	Value ($)
Utilities (continued)		
UGI	83,500	2,275,375
WGL Holdings	47,200	1,546,272
		25,834,211
Total Common Stocks (cost $310,838,912)		**312,700,731**

Other Investment—1.2%		
Registered Investment Company;		
Dreyfus Institutional Preferred Plus Money Market Fund (cost $3,740,000)	3,740,000 [c]	**3,740,000**

Investment of Cash Collateral for Securities Loaned—19.6%		
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $61,997,256)	61,997,256 [c]	**61,997,256**

Total Investments (cost $376,576,168)	**119.5%**	**378,437,987**
Liabilities, Less Cash and Receivables	**(19.5%)**	**(61,826,480)**
Net Assets	**100.0%**	**316,611,507**

[a] *All or a portion of these securities are on loan. At December 31, 2007, the total market value of the portfolio's securities on loan is $61,067,475 and the total market value of the collateral held by the portfolio is $63,629,713, consisting of cash collateral of $61,997,256 and U.S. Government and agency securities valued at $1,632,457.*
[b] *Non-income producing security.*
[c] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Money Market Investments	20.8	Energy	9.0
Industrial	18.0	Materials	8.3
Information Technology	14.2	Utilities	8.2
Consumer Discretionary	13.6	Consumer Staples	2.5
Financial	13.4	Telecommunication Services	.4
Health Care	11.1		**119.5**

† *Based on net assets.*
See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2007

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $61,067,475)—Note 1(b):		
Unaffiliated issuers	310,838,912	312,700,731
Affiliated issuers	65,737,256	65,737,256
Cash		166,241
Dividends and interest receivable		406,834
Receivable for shares of Beneficial Interest subscribed		60,873
Prepaid expenses		29,881
		379,101,816
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		235,645
Liability for securities on loan—Note 1(b)		61,997,256
Payable for shares of Beneficial Interest redeemed		194,533
Accrued expenses		62,875
		62,490,309
Net Assets ($)		**316,611,507**
Composition of Net Assets ($):		
Paid-in capital		274,534,532
Accumulated undistributed investment income—net		2,471,963
Accumulated net realized gain (loss) on investments		37,743,193
Accumulated net unrealized appreciation (depreciation) on investments		1,861,819
Net Assets ($)		**316,611,507**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	277,602,192	39,009,315
Shares Outstanding	17,883,046	2,524,796
Net Asset Value Per Share ($)	**15.52**	**15.45**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2007

Investment Income ($):	
Income:	
Cash dividends (net of $6,057 foreign taxes withheld at source):	
Unaffiliated issuers	5,557,977
Affiliated issuers	72,482
Income from securities lending	145,475
Total Income	**5,775,934**
Expenses:	
Investment advisory fee—Note 3(a)	2,845,541
Distribution fees—Note 3(b)	143,579
Custodian fees—Note 3(b)	71,215
Prospectus and shareholders' reports	53,660
Professional fees	39,822
Trustees' fees and expenses—Note 3(c)	6,938
Shareholder servicing costs—Note 3(b)	4,010
Interest expense—Note 2	3,529
Miscellaneous	15,568
Total Expenses	**3,183,862**
Less—waiver of fees due to undertaking—Note 3(a)	(86,605)
Net Expenses	**3,097,257**
Investment Income—Net	**2,678,677**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	37,593,511
Net unrealized appreciation (depreciation) on investments	(28,154,438)
Net Realized and Unrealized Gain (Loss) on Investments	**9,439,073**
Net Increase in Net Assets Resulting from Operations	**12,117,750**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2007	2006
Operations ($):		
Investment income—net	2,678,677	2,016,326
Net realized gain (loss) on investments	37,593,511	48,537,987
Net unrealized appreciation (depreciation) on investments	(28,154,438)	(17,537,219)
Net Increase (Decrease) in Net Assets Resulting from Operations	**12,117,750**	**33,017,094**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,378,271)	(1,362,755)
Service Shares	(251,422)	(160,836)
Net realized gain on investments:		
Initial Shares	(39,159,213)	(58,101,236)
Service Shares	(9,828,752)	(14,498,194)
Total Dividends	**(50,617,658)**	**(74,123,021)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	18,299,663	22,686,207
Service Shares	4,556,463	7,303,727
Dividends reinvested:		
Initial Shares	40,537,484	59,463,991
Service Shares	10,080,174	14,659,030
Cost of shares redeemed:		
Initial Shares	(86,321,689)	(74,010,854)
Service Shares	(55,399,353)	(17,690,863)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**(68,247,258)**	**12,411,238**
Total Increase (Decrease) in Net Assets	**(106,747,166)**	**(28,694,689)**
Net Assets ($):		
Beginning of Period	423,358,673	452,053,362
End of Period	**316,611,507**	**423,358,673**
Undistributed investment income—net	2,471,963	1,694,146

	Year Ended December 31,	
	2007	2006
Capital Share Transactions:		
Initial Shares		
Shares sold	1,093,663	1,290,264
Shares issued for dividends reinvested	2,546,324	3,435,239
Shares redeemed	(5,194,938)	(4,227,682)
Net Increase (Decrease) in Shares Outstanding	**(1,554,951)**	**497,821**
Service Shares		
Shares sold	272,164	413,692
Shares issued for dividends reinvested	635,973	849,799
Shares redeemed	(3,308,648)	(1,020,884)
Net Increase (Decrease) in Shares Outstanding	**(2,400,511)**	**242,607**

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.

	Year Ended December 31,				
Initial Shares	2007	2006	2005	2004	2003
Per Share Data ($):					
Net asset value, beginning of period	17.39	19.15	17.62	15.82	12.04
Investment Operations:					
Investment income—net [a]	.12	.08	.08	.07	.04
Net realized and unrealized gain (loss) on investments	.19	1.39	1.53	2.22	3.78
Total from Investment Operations	.31	1.47	1.61	2.29	3.82
Distributions:					
Dividends from investment income—net	(.07)	(.07)	(.01)	(.07)	(.04)
Dividends from net realized gain on investments	(2.11)	(3.16)	(.07)	(.42)	–
Total Distributions	(2.18)	(3.23)	(.08)	(.49)	(.04)
Net asset value, end of period	15.52	17.39	19.15	17.62	15.82
Total Return (%)	1.50	7.75	9.17	14.48	31.72
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.80	.80	.79	.78	.82
Ratio of net expenses to average net assets [b]	.80	.80	.79	.78	.82
Ratio of net investment income to average net assets	.73	.48	.43	.43	.32
Portfolio Turnover Rate	116.83	149.02	99.27	79.75	74.15
Net Assets, end of period ($ x 1,000)	277,602	338,081	362,789	344,979	302,253

[a] *Based on average shares outstanding at each month end.*
[b] *The differences for periods represents less than .01%.*
See notes to financial statements.

Service Shares	Year Ended December 31, 2007	2006	2005	2004	2003
Per Share Data ($):					
Net asset value, beginning of period	17.31	19.06	17.57	15.77	12.02
Investment Operations:					
Investment income—net [a]	.09	.06	.04	.04	.02
Net realized and unrealized gain (loss) on investments	.21	1.39	1.52	2.21	3.75
Total from Investment Operations	.30	1.45	1.56	2.25	3.77
Distributions:					
Dividends from investment income—net	(.05)	(.04)	–	(.03)	(.02)
Dividends from net realized gain on investments	(2.11)	(3.16)	(.07)	(.42)	–
Total Distributions	(2.16)	(3.20)	(.07)	(.45)	(.02)
Net asset value, end of period	15.45	17.31	19.06	17.57	15.77
Total Return (%)	1.39	7.68	8.93	14.23	31.48
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.05	1.05	1.04	1.03	1.06
Ratio of net expenses to average net assets	.90	.91	1.00	1.00	1.00
Ratio of net investment income to average net assets	.58	.37	.22	.22	.12
Portfolio Turnover Rate	116.83	149.02	99.27	79.75	74.15
Net Assets, end of period ($ x 1,000)	39,009	85,277	89,264	81,680	58,224

[a] *Based on average shares outstanding at each month end.*
See 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 four 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.

On July 1, 2007, Mellon Financial Corporation and The Bank of New York Company, Inc. merged, forming The Bank of New York Mellon Corporation ("BNY Mellon"). As part of this transaction, Dreyfus became a wholly-owned subsidiary of BNY Mellon.

MBSC Securities 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, the allocation of certain transfer agency costs and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The 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. Registered open-end investment companies that are not traded on an exchange 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 ADRs 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. Financial futures are valued at the last sales price.

The Financial Accounting Standards Board ("FASB") released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management does not believe that the application of this standard will have a material impact on the financial statements of the portfolio.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income, including, where applicable, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

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, if any, as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with Mellon Bank, N.A. ("Mellon Bank"), an affiliate of the Manager, the portfolio may lend securities to qualified institutions. It is the portfolio's policy, that at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan is maintained at all times. Collaterals are either in the form of cash, which can be invested in certain money market mutual funds managed by the Manager, U.S. Government and Agency securities or Letters of Credit. The portfolio is 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 bears 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. During the period ended December 31, 2007, Mellon Bank earned $62,346 from lending portfolio securities, pursuant to the securities lending agreement.

(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 gains, 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 gains can be offset by capital loss carryovers, it is the policy of the portfolio not to distribute such gains. 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.

During the current year, the portfolio adopted FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the portfolio's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The adoption of FIN 48 had no impact on the operations of the portfolio for the period ended December 31, 2007.

The portfolio is not subject to examination by U.S. Federal, State and City tax authorities for the tax years before 2004.

At December 31, 2007, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $18,311,381, undistributed capital gains $22,421,890 and unrealized appreciation $1,828,066. In addition, the portfolio had $484,362 of capital losses realized after October 31, 2007, which were deferred for tax purposes to the first day of the following fiscal year.

The tax characters of distributions paid to shareholders during the fiscal periods ended December 31, 2007 and December 31, 2006 were as follows: ordinary income $10,308,755 and $25,731,071 and long-term capital gains $40,308,903 and $48,391,950, respectively.

During the period ended December 31, 2007, as a result of permanent book to tax differences, primarily due to the tax treatment for real estate investment trusts, the portfolio decreased accumulated undistributed investment income-net by $271,167 and increased accumulated net realized gain (loss) on investments by the same amount. Net assets and net asset value per share 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 borrowing.

The average daily amount of borrowings outstanding under the line of credit during the period ended December 31, 2007, was approximately $61,100, with a related weighted average annualized interest rate of 5.78%.

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 the value of the portfolio's average daily net assets and is payable monthly.

The Manager has agreed from January 1, 2007 to December 31, 2008, 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 .90% of the value of the average daily net assets of their class. During the period ended December 31, 2007, the Manager waived receipt of fees of $86,605, pursuant to the undertakings.

(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 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, 2007, Service shares were charged $143,579 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, 2007, the portfolio was charged $842 pursuant to the transfer agency agreement.

The portfolio compensates Mellon Bank, an affiliate of the Manager, under a custody agreement for providing custodial services for the portfolio. During the period ended December 31, 2007, the portfolio was charged $71,215 pursuant to the custody agreement.

During the period ended December 31, 2007, the portfolio was charged $4,821 for services performed by the Chief Compliance Officer.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: investment advisory fees $204,854, Rule 12b-1 distribution plan fees $8,417, custodian fees $22,031, chief compliance officer fees $3,616 and transfer agency per account fees $176, which are offset against an expense reimbursement currently in effect in the amount of $3,449.

(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, 2007, amounted to $442,479,675 and $560,750,908, respectively.

At December 31, 2007, the cost of investments for federal income tax purposes was $376,609,921; accordingly, accumulated net unrealized appreciation on investments was $1,828,066, consisting of $28,787,847 gross unrealized appreciation and $26,959,781 gross unrealized depreciation.

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, 2007, 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 years 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. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included 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, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007 by correspondence with the custodian. 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, 2007, 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 years, in conformity with U. S. generally accepted accounting principles.

Ernst & Young LLP

New York, New York
February 11, 2008

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the portfolio hereby designates $1.7370 per share as a long-term capital gain distribution paid on March 29, 2007 and also the portfolio hereby designates 52.61% of the ordinary dividends paid during the fiscal year ended December 31, 2007 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in January 2008 of the percentage applicable to the preparation of their 2007 income tax returns.

INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE PORTFOLIO'S INVESTMENT ADVISORY AGREEMENT (Unaudited)

At a meeting of the Board of Trustees of Dreyfus Investment Portfolios (the "Company") held on July 19-20, 2007, the Board considered the re-approval of the portfolio's Investment Advisory Agreement for another one year term, pursuant to which the Manager provides the portfolio with investment advisory and administrative services. The Board members, none of whom are "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the Company, were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of the Manager.

Analysis of Nature, Extent and Quality of Services Provided to the Portfolio. The Board members received a presentation from representatives of the Manager regarding services provided to the portfolio and other funds in the Dreyfus fund complex, and discussed the nature, extent and quality of the services provided to the portfolio pursuant to the portfolio's Investment Advisory Agreement. The Manager's representatives reviewed the portfolio's distribution of accounts and the relationships the Manager has with various intermediaries and the different needs of each. The Board members noted that the portfolio's shares are offered only to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The Manager's representatives noted the diversity of distribution of the funds in the Dreyfus fund complex, and the Manager's corresponding need for broad, deep and diverse resources to be able to provide ongoing shareholder services to each distribution channel, including that of the portfolio. The Board also reviewed the number of separate accounts investing in the portfolio, as well as the portfolio's asset size.

The Board members also considered the Manager's research and portfolio management capabilities and that the Manager also provides oversight of day-to-day portfolio operations, including portfolio accounting and administration and assistance in meeting legal and regulatory requirements, and the Manager's extensive administrative, accounting and compliance infrastructure.

Comparative Analysis of the Portfolio's Investment Advisory Fee, Expense Ratio and Performance. The Board members reviewed reports prepared by Lipper, Inc., an independent provider of investment company data, which included information comparing the portfolio's advisory fee and expense ratio with a group of comparable funds (the "Expense Group") and with a broader group of funds (the "Expense Universe") that were selected by Lipper. Included in these reports were comparisons of contractual and actual advisory fee rates, total operating expenses and performance. The Manager furnished these reports to the Board along with a description of the methodology Lipper used to select the Expense Group and Expense Universe.

The Board reviewed the results of the Expense Group and Expense Universe comparisons. The Board reviewed the range of advisory fees and expense ratios of the funds in the Expense Group and Expense Universe, and noted that the expense ratio of the portfolio's Initial shares (which are not subject to a Rule 12b-1 plan) ranked in the first quintile (was among the lowest) of the Expense Group and Expense Universe and that the expense ratio of the portfolio's Service shares (which are subject to a Rule 12b-1 plan) was above the Expense Group median and below the Expense Universe median. The Board considered the current fee waiver and expense reimbursement arrangement undertaken by the Manager.

The Board members also reviewed the reports prepared by Lipper that presented the portfolio's performance and comparisons of performance to a group of comparable funds (the "Performance Group") composed of the same funds included in the Expense Group and to a broader group of funds (the "Performance Universe"). The Manager also provided a comparison of the portfolio's calendar year total returns to the returns of its benchmark index. The Board noted that the performance of the portfolio's Initial shares was below the Performance Group and Performance Universe medians for the reported periods.

The Board had previously expressed its concern with the portfolio's performance and requested that the Manager take steps to improve it. Representatives of the Manager presented, and the Board members approved, proposals to change the primary portfolio manager of the portfolio and to change the portfolio's investment approach. Effective September 30, 2007, investment decisions for the portfolio are made by a team of portfolio managers (Michael Dunn, Oliver Buckley, Langton Garvin and Patrick Slattery), each of whom is an employee of Dreyfus and is also a member of the Domestic Equity Group of Franklin Portfolio Associates, LLC, an affiliate of Dreyfus. The portfolio managers select stocks through a "bottom up," structured approach that seeks to identify undervalued securities using a quantitative screening process. The process is driven by a proprietary quantitative model which measures more than 40 characteristics of stocks to identify and rank stocks. Portfolio shareholders were notified of these changes at least 30 days before they were implemented.

Representatives of the Manager reviewed with the Board members the fees paid to the Manager or its affiliates by other accounts managed or sub-advised by the Manager or its affiliates with similar investment objectives, policies and strategies as the portfolio (the "Similar Accounts"). The Manager's representatives explained the nature of the Similar Accounts and the differences, from the Manager's perspective, in management of the Similar Accounts as compared to managing and providing services to the portfolio. Representatives of the Manager noted that the Manager or its affiliates do not manage other mutual funds with similar investment objectives, policies and strategies as the portfolio. The Manager's representatives also reviewed the costs associated with distribution through intermediaries. The Board analyzed the differences in fees paid to the Manager and discussed the relationship of the advisory fees paid in light of the services provided. The Board members considered the relevance of the fee information provided for the Similar Accounts to evaluate the appropriateness and reasonableness of the portfolio's advisory fees.

<u>Analysis of Profitability and Economies of Scale.</u> The Manager's representatives reviewed the dollar amount of expenses allocated and profit received by the Manager and the method used to determine such expenses and profit. The Board previously had been provided with

information prepared by an independent consulting firm regarding the Manager's approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus mutual fund complex. The Board members also had been informed that the methodology had been reviewed by an independent registered public accounting firm which, like the consultant, found the methodology to be reasonable. The consulting firm also analyzed where any economies of scale might emerge in connection with the management of the portfolio. The Board members evaluated the profitability analysis in light of the relevant circumstances for the portfolio, including any decline in assets, and the extent to which economies of scale would be realized if the portfolio grows and whether fee levels reflect these economies of scale for the benefit of portfolio shareholders. The Board members also considered potential benefits to the Manager from acting as investment adviser to the portfolio, including any soft dollar arrangements with respect to trading the portfolio's portfolio.

It was noted that the Board members should consider the Manager's profitability with respect to the portfolio as part of their evaluation of whether the fee under the Investment Advisory Agreement bears a reasonable relationship to the mix of services provided by the Manager, including the nature, extent and quality of such services. It was noted that the profitability percentage for managing the portfolio was within ranges determined by appropriate court cases to be reasonable given the services rendered and that the profitability percentage for managing the portfolio was reasonable given the services provided. The Board also noted the current fee waiver and expense reimbursement arrangement and its effect on the profitability of the Manager.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to continuation of the portfolio's Investment Advisory Agreement. Based on the discussions and considerations as described above, the Board made the following conclusions and determinations with respect to the portfolio:

- The Board concluded that the nature, extent and quality of the services provided by the Manager to the portfolio are adequate and appropriate.
- While the Board was concerned with the portfolio's total return performance, the Board believed the Manager was seeking to improve it, noting the portfolio management personnel changes effective September 30, 2007.
- The Board concluded that the fee paid to the Manager by the portfolio was reasonable in light of the considerations described above.
- The Board determined that the economies of scale which may accrue to the Manager and its affiliates in connection with the management of the portfolio had been adequately considered by the Manager in connection with the advisory fee rate charged to the portfolio, and that, to the extent in the future it were determined that material economies of scale had not been shared with the portfolio, the Board would seek to have those economies of scale shared with the portfolio.

The Board members considered these conclusions and determinations, along with the information received on a routine and regular basis throughout the year, and, without any one factor being dispositive, the Board determined that re-approval of the portfolio's Investment Advisory Agreement was in the best interests of the portfolio and its shareholders.

Joseph S. DiMartino (64)
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
• 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
• Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director

No. of Portfolios for which Board Member Serves: 163

Clifford L. Alexander, Jr. (74)
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)

Other Board Memberships and Affiliations:
• Mutual of America Life Insurance Company, Director

No. of Portfolios for which Board Member Serves: 51

David W. Burke (71)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Corporate Director and Trustee

Other Board Memberships and Affiliations:
• John F. Kennedy Library Foundation, Director

No. of Portfolios for which Board Member Serves: 85

Whitney I. Gerard (73)
Board Member (2003)

Principal Occupation During Past 5 Years:

• Partner of Chadbourne & Parke LLP

No. of Portfolios for which Board Member Serves: 28

George L. Perry (73)
Board Member (2003)

Principal Occupation During Past 5 Years:

• Economist and Senior Fellow at Brookings Institution

No. of Portfolios for which Board Member Serves: 26

Once elected all Board Members serve for an indefinite term, but achieve Emeritus status upon reaching age 80. 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.

Lucy Wilson Benson, Emeritus Board Member
Arthur A. Hartman, Emeritus Board Member

OFFICERS OF THE FUND (Unaudited)

J. DAVID OFFICER, President since December 2006.

Chief Operating Officer, Vice Chairman and a Director of the Manager, and an officer of 78 investment companies (comprised of 163 portfolios) managed by the Manager. He is 59 years old and has been an employee of the Manager since April 1998.

PHILLIP N. MAISANO, Executive Vice President since July 2007.

Chief Investment Officer, Vice Chair and a director of the Manager, and an officer of 78 investment companies (comprised of 163 portfolios) managed by the Manager. Mr. Maisano also is an officer and/or Board member of certain other investment management subsidiaries of The Bank of New York Mellon Corporation, each of which is an affiliate of the Manager. He is 60 years old and has been an employee of the Manager since November 2006. Prior to joining the Manager, Mr. Maisano served as Chairman and Chief Executive Officer of EACM Advisors, an affiliate of the Manager, since August 2004, and served as Chief Executive Officer of Evaluation Associates, a leading institutional investment consulting firm, from 1988 until 2004.

MICHAEL A. ROSENBERG, Vice President and Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 47 years old and has been an employee of the Manager since October 1991.

JAMES BITETTO, Vice President and Assistant Secretary since August 2005.

Associate General Counsel and Secretary of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 41 years old and has been an employee of the Manager since December 1996.

JONI LACKS CHARATAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. She is 52 years old and has been an employee of the Manager since October 1988.

JOSEPH M. CHIOFFI, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 46 years old and has been an employee of the Manager since June 2000.

JANETTE E. FARRAGHER, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. She is 45 years old and has been an employee of the Manager since February 1984.

JOHN B. HAMMALIAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since February 1991.

ROBERT R. MULLERY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 55 years old and has been an employee of the Manager since May 1986.

JEFF PRUSNOFSKY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since October 1990.

JAMES WINDELS, Treasurer since November 2001.

Director – Mutual Fund Accounting of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since April 1985.

ROBERT ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 43 years old and has been an employee of the Manager since October 1988.

ROBERT SALVIOLO, Assistant Treasurer since May 2007.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since June 1989.

ROBERT SVAGNA, Assistant Treasurer since December 2002.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since November 1990.

GAVIN C. REILLY, Assistant Treasurer since December 2005.

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 39 years old and has been an employee of the Manager since April 1991.

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

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (79 investment companies, comprised of 180 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 50 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 75 investment companies (comprised of 176 portfolios) managed by the Manager. He is 37 years old and has been an employee of the Distributor since October 1998.

NOTES

For More Information

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

Investment Adviser

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Custodian

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

Transfer Agent &
Dividend Disbursing Agent

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

Distributor

MBSC Securities Corporation
200 Park Avenue
New York, NY 10166

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

Mail The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144
Attn: Investments Division

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 1-202-551-8090.

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, 2007, is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-645-6561.

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The Dreyfus Socially Responsible Growth Fund, Inc.

ANNUAL REPORT December 31, 2007

Dreyfus
A BNY Mellon Company[SM]

Contents

THE FUND

FOR MORE INFORMATION

A LETTER FROM THE CEO

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, 2007, through December 31, 2007.

Looking back, 2007 was a year of significant change for the stock market. Turmoil in the sub-prime mortgage market, declining housing values and soaring energy prices sparked a "flight to quality" in which investors reassessed their attitudes toward risk. As a result, smaller, more speculative companies that had led the stock market over the past several years lost value over the second half of the year, while shares of larger, multinational growth companies returned to favor. Many financial services and consumer discretionary companies were hurt by repercussions from the sub-prime lending crisis and economic downturn, but energy and basic materials producers generally moved higher along with underlying commodity prices.

The turbulence of 2007 reinforced a central principle of successful investing: diversification. Investors with broad exposure to the world's stock and bond markets were better protected from the full impact of market volatility in areas that, earlier in the year, were among the bright spots at the time. As we look ahead, we believe that now is the perfect time to meet with your financial advisor, who can help you plan and diversify your investment portfolio in a way that manages the potential opportunities and risks that may continue to arise in 2008.

For information about how the fund performed during the reporting period, as well as market perspectives, we have provided a Discussion of Fund Performance given by the fund's Portfolio Managers.

Thank you for your continued confidence and support.

Sincerely,

Thomas F. Eggers
Chief Executive Officer
The Dreyfus Corporation
January 15, 2008

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2007, through December 31, 2007, as provided by John O'Toole and Jocelin Reed, Portfolio Managers

Fund and Market Performance Overview

Stocks gained ground in 2007 primarily due to robust corporate earnings during the first half of the year, but encountered heightened volatility in the summer and fall. The Dreyfus Socially Responsible Growth Fund participated fully in the market's rise and added incremental gains during the market's second-half slump due to positive sector allocations and good individual stock selections. As a result, the fund's total return exceeded that of the benchmark during the reporting period.

For the 12-month period ended December 31, 2007, the fund's Initial shares produced a 7.78% total return, and the fund's Service shares produced a 7.49% total return.[1] In comparison, the fund's benchmark, the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index"), produced a 5.49% total return for the same period.[2]

The Fund's Investment Approach

The fund seeks capital growth, with current income as a secondary objective. To pursue these goals, the fund invests primarily in the common stocks of companies that, in our opinion, meet traditional investment standards while simultaneously conducting their businesses in a manner that contributes to the enhancement of the quality of life in America. In selecting stocks, we begin by using quantitative research to identify and rank stocks within an industry or sector. Next, based on fundamental analysis, we designate the most attractive of the higher ranked securities as potential purchase candidates. We then evaluate potential purchase candidates by industry or sector, to determine whether the company meets the fund's socially responsible investment criteria.

We next select investments from those companies that we consider to be the most attractive based on financial considerations. If there is more than one company to choose from, we can select stocks of companies that we consider to have records that exhibit positive accomplishments in the fund's areas of social concern.

The fund normally focuses on large-cap growth stocks; however, we may emphasize different types of growth-oriented stocks and different market capitalizations within the large-capitalization range as market conditions warrant. The fund also may invest in value-oriented stocks, midcap stocks and small-cap stocks.

Large-Cap Growth Stocks Led the Market in 2007

Large-cap growth stocks generally led the market's advance during 2007, a trend that favored the fund's investment approach. The fund's relatively heavy exposure to technology stocks bolstered returns during the reporting period. Top performers during the first half of the reporting period were concentrated among semiconductor holdings, such as Texas Instruments. During the second half of the year, consumer electronics maker Apple delivered standout performance on the strength of its iPhone introduction, while other technology holdings, such as Microsoft, further enhanced returns.

Health care proved to be another area of strength for the fund. We had allocated relatively few assets to major pharmaceutical companies, focusing instead on better performing medical product makers, such as Baxter International, and medical services providers, such as Aetna and Wellpoint.

Security Selection Drove Gains in the Lagging Financials Sector

In the financials sector, one of the benchmark's worst performing sectors, the fund benefited from relatively light exposure to brokerage and asset management firms, many of which suffered due to losses in the sub-prime mortgage market. Instead, we focused on financial companies that we believed would be somewhat insulated from the sub-prime credit crunch. For example, shares of Northern Trust, which focuses on global securities servicing, rose by roughly 25%. Individual stock selections in several other market sectors also contributed to the fund's relatively strong returns, including beverage maker PepsiCo, Internet services provider Google and diversified electronics maker Emerson Electric.

On the other hand, a few of the fund's asset allocation decisions detracted from relative performance. Underweighted exposure to petroleum-related stocks hindered returns in the energy sector. Overweighted exposure to consumer cyclical stocks, such as retailers Nordstrom, Office Depot and Bed Bath & Beyond, further limited the fund's gains.

Focusing on Growth in a Slowing Economy

We recently have de-emphasized areas we believe to be vulnerable to a slowing economy while focusing on those with better potential to deliver significant growth. As of the reporting period's end, we have found relatively few investment candidates in the energy sector, where we believe petroleum prices have reached speculative levels. We also have allocated a relatively small percentage of assets to the financials sector, where real estate credit concerns have continued to weigh on stock prices. Conversely, we have identified a relatively large number of opportunities in the technology and health care sectors.

Socially Responsible Employment Practices

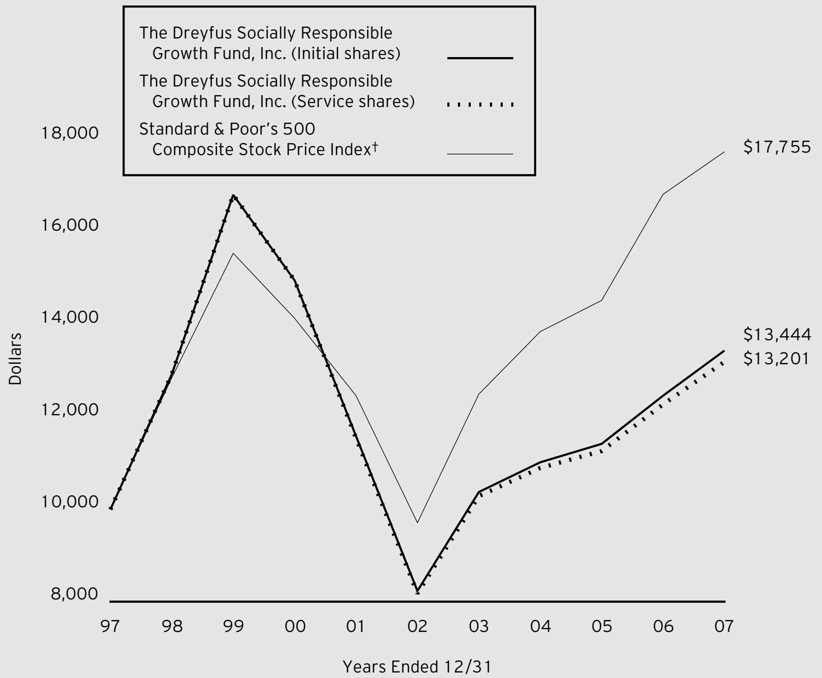
Issues of workplace management relations are among the fund's criteria for identifying companies that contribute to the enhancement of the quality of life in America. We scrutinize a company's interactions with its people at every level of employment, looking for diversity in corporate strategy and practice. One notable example is long-time fund holding PepsiCo, which has demonstrated a commitment to equal opportunity for women at the highest levels of management, starting with CEO Indra K. Nooyi. Such employment practices appear to be an integral part of the company's formal business strategy, which recognizes diversity as a corporate asset supporting international growth. For further information regarding the fund's approach to socially responsible investing, please consult the fund's prospectus.

January 15, 2008

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.

1 *Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price and investment return fluctuate such that upon redemption, fund shares may be worth more or less than their original cost. The fund's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in variable insurance contracts, which will reduce returns.*

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



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

Average Annual Total Returns *as of 12/31/07*

	1 Year	5 Years	10 Years
Initial shares	**7.78%**	**10.29%**	**3.00%**
Service shares	**7.49%**	**10.03%**	**2.82%**

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 12/31/97 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, 2007 (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. Unlike a mutual fund, the Index is not subject to charges, fees and other expenses. Investors cannot invest directly in any index. 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, 2007 to December 31, 2007. It also shows how much a $1,000 investment would be worth at the close of the period, assuming actual returns and expenses.

Expenses and Value of a $1,000 Investment
assuming actual returns for the six months ended December 31, 2007

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.16	$ 5.42
Ending value (after expenses)	$1,011.60	$1,010.00

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended December 31, 2007

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.18	$ 5.45
Ending value (after expenses)	$1,021.07	$1,019.81

† *Expenses are equal to the portfolio's annualized expense ratio of .82% for Initial shares and 1.07% for Service shares, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

December 31, 2007

Common Stocks—99.7%	Shares		Value ($)
Consumer Discretionary—7.7%			
Bed Bath & Beyond	76,450	a,b	2,246,865
Choice Hotels International	59,700		1,982,040
Coach	51,500	b	1,574,870
Darden Restaurants	68,200		1,889,822
Idearc	55,800		979,848
NIKE, Cl. B	56,500		3,629,560
Sotheby's	36,500	a	1,390,650
Target	44,100		2,205,000
Tiffany & Co.	46,100		2,121,983
TJX Cos.	82,700		2,375,971
Toyota Motor, ADR	15,900		1,688,103
Walt Disney	131,650		4,249,662
			26,334,374
Consumer Staples—10.5%			
Costco Wholesale	77,350		5,395,936
General Mills	56,100		3,197,700
Kimberly-Clark	64,800	a	4,493,232
PepsiCo	175,500		13,320,450
Procter & Gamble	129,150		9,482,193
			35,889,511
Energy—7.8%			
Anadarko Petroleum	84,900		5,577,081
ENSCO International	51,700	a	3,082,354
National Oilwell Varco	49,000	b	3,599,540
Nexen	81,300		2,623,551
Noble	72,800		4,113,928
Smith International	40,900		3,020,465
XTO Energy	89,375		4,590,300
			26,607,219
Financial—7.2%			
Bank of America	56,600		2,335,316
Chubb	44,400		2,423,352
Goldman Sachs Group	34,400		7,397,720
Hartford Financial Services Group	31,800		2,772,642
Northern Trust	62,350		4,774,763

Common Stocks (continued)	Shares		Value ($)
Financial (continued)			
ProLogis	33,500		2,123,230
TD Ameritrade Holding	131,200	b	2,631,872
			24,458,895
Health Care—16.5%			
Aetna	76,750		4,430,777
Alcon	24,950		3,568,848
Amgen	83,200	b	3,863,808
AstraZeneca Group, ADR	46,600		1,995,412
Baxter International	92,950		5,395,747
Becton, Dickinson & Co.	63,200		5,282,256
Genzyme	71,300	b	5,307,572
Johnson & Johnson	180,650		12,049,355
Novartis, ADR	98,300		5,338,673
Quest Diagnostics	27,300	a	1,444,170
WellPoint	84,300	b	7,395,639
			56,072,257
Industrial—15.4%			
3M	51,300		4,325,616
Danaher	56,800		4,983,632
Eaton	39,800		3,858,610
Emerson Electric	215,800		12,227,228
Equifax	74,300		2,701,548
First Solar	7,200	b	1,923,408
Herman Miller	94,200	a	3,051,138
Manpower	71,800		4,085,420
Rockwell Automation	26,450		1,823,992
Rockwell Collins	72,200		5,196,234
United Technologies	107,700		8,243,358
			52,420,184
Materials—3.0%			
Air Products & Chemicals	39,200		3,866,296
Praxair	35,700		3,166,947
Rohm & Haas	59,800	a	3,173,586
			10,206,829
Technology—29.0%			
Accenture, Cl. A	93,250		3,359,797
Apple	50,900	b	10,082,272

Common Stocks (continued)	Shares		Value ($)
Technology (continued)			
Applied Materials	163,600		2,905,536
Cisco Systems	270,350	b	7,318,375
Dell	180,800	b	4,431,408
EMC	186,150	b	3,449,360
Google, Cl. A	15,900	b	10,994,532
Intel	128,350	b	3,421,811
International Business Machines	103,900	a	11,231,590
Microsoft	433,100		15,418,360
National Semiconductor	115,750		2,620,580
News, Cl. B	347,050		7,374,813
QUALCOMM	120,750		4,751,513
STMicroelectronics (New York Shares)	91,400		1,307,020
Symantec	85,400	b	1,378,356
Texas Instruments	209,100		6,983,940
Xerox	98,400	a	1,593,096
			98,622,359
Telecommunication Services—.7%			
Windstream	171,100		**2,227,722**
Utilities—1.9%			
NiSource	108,300		2,045,787
Sempra Energy	69,500		4,300,660
			6,346,447
Total Common Stocks (cost $281,683,711)			**339,185,797**

Short-Term Investments—.0%	Principal Amount ($)	Value ($)
Negotiable Bank Certificate Of Deposit		
Self-Help Credit Union 3.88%, 3/14/08 (cost $100,000)	100,000	**100,000**

Other Investment—.4%	Shares		Value ($)
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $1,334,000)	1,334,000	c	**1,334,000**

Investment of Cash Collateral for Securities Loaned—2.2%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Plus Fund (cost $7,528,695)	7,528,695 [c]	**7,528,695**
Total Investments (cost $290,646,406)	**102.3%**	**348,148,492**
Liabilities, Less Cash and Receivables	**(2.3%)**	**(7,911,381)**
Net Assets	**100.0%**	**340,237,111**

ADR—American Deposit Receipts.

[a] *All or a portion of these securities are on loan. At December 31, 2007, the total market value of the fund's securities on loan is $21,389,785 and the total market value of the collateral held by the fund is $22,283,065, consisting of cash collateral of $7,528,695 and U.S. Government and agency securities valued at $14,754,370.*

[b] *Non-income producing security.*

[c] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Technology	29.0	Materials	3.0
Health Care	16.5	Short-Term/Money Market Investments	2.6
Industrial	15.4	Utilities	1.9
Consumer Staples	10.5	Telecommunication Services	.7
Energy	7.8		
Consumer Discretionary	7.7		
Financial	7.2		**102.3**

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2007

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $21,389,785)—Note 1(b):		
Unaffiliated issuers	281,783,711	339,285,797
Affiliated issuers	8,862,695	8,862,695
Cash		77,017
Dividends and interest receivable		394,357
Receivable for shares of Common Stock subscribed		21,447
Prepaid expenses		2,199
		348,643,512
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		238,852
Liability for securities on loan—Note 1(b)		7,528,695
Payable for shares of Common Stock redeemed		486,632
Interest payable—Note 2		4,093
Accrued expenses		148,129
		8,406,401
Net Assets ($)		**340,237,111**
Composition of Net Assets ($):		
Paid-in capital		459,801,321
Accumulated undistributed investment income—net		2,060,658
Accumulated net realized gain (loss) on investments		(179,126,954)
Accumulated net unrealized appreciation (depreciation) on investments		57,502,086
Net Assets ($)		**340,237,111**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	331,313,246	8,923,865
Shares Outstanding	10,862,594	294,989
Net Asset Value Per Share ($)	**30.50**	**30.25**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2007

Investment Income ($):	
Income:	
Cash dividends (net of $41,447 foreign taxes withheld at source):	
Unaffiliated issuers	4,993,521
Affiliated issuers	66,406
Income from securities lending	75,331
Total Income	**5,135,258**
Expenses:	
Investment advisory fee—Note 3(a)	2,746,421
Professional fees	91,321
Prospectus and shareholders' reports	78,339
Custodian fees—Note 3(c)	31,492
Shareholder servicing costs—Note 3(c)	25,340
Distribution fees—Note 3(b)	24,554
Directors' fees and expenses—Note 3(d)	9,291
Interest expense—Note 2	5,287
Loan commitment fees—Note 2	3,504
Miscellaneous	18,064
Total Expenses	**3,033,613**
Investment Income—Net	**2,101,645**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	11,483,091
Net unrealized appreciation (depreciation) on investments	14,439,012
Net Realized and Unrealized Gain (Loss) on Investments	**25,922,103**
Net Increase in Net Assets Resulting from Operations	**28,023,748**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2007	2006
Operations ($):		
Investment income—net	2,101,645	1,969,279
Net realized gain (loss) on investments	11,483,091	26,165,908
Net unrealized appreciation (depreciation) on investments	14,439,012	6,300,965
Net Increase (Decrease) in Net Assets Resulting from Operations	**28,023,748**	**34,436,152**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,943,866)	(431,631)
Service Shares	(31,270)	–
Total Dividends	**(1,975,136)**	**(431,631)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	12,658,980	10,444,022
Service Shares	762,545	875,069
Dividends reinvested:		
Initial Shares	1,943,866	431,631
Service Shares	31,270	–
Cost of shares redeemed:		
Initial Shares	(83,100,413)	(88,292,377)
Service Shares	(4,016,664)	(2,780,990)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**(71,720,416)**	**(79,322,645)**
Total Increase (Decrease) in Net Assets	**(45,671,804)**	**(45,318,124)**
Net Assets ($):		
Beginning of Period	385,908,915	431,227,039
End of Period	**340,237,111**	**385,908,915**
Undistributed investment income—net	2,060,658	1,962,673

	Year Ended December 31,	
	2007	2006
Capital Share Transactions:		
Initial Shares		
Shares sold	425,875	387,219
Shares issued for dividends reinvested	67,825	15,986
Shares redeemed	(2,796,135)	(3,299,941)
Net Increase (Decrease) in Shares Outstanding	**(2,302,435)**	**(2,896,736)**
Service Shares		
Shares sold	25,792	33,024
Shares issued for dividends reinvested	1,098	–
Shares redeemed	(134,965)	(105,261)
Net Increase (Decrease) in Shares Outstanding	**(108,075)**	**(72,237)**

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.

	Year Ended December 31,				
Initial Shares	2007	2006	2005	2004	2003
Per Share Data ($):					
Net asset value, beginning of period	28.45	26.08	25.17	23.79	18.90
Investment Operations:					
Investment income—net [a]	.17	.13	.03	.09	.02
Net realized and unrealized gain (loss) on investments	2.04	2.27	.88	1.39	4.89
Total from Investment Operations	2.21	2.40	.91	1.48	4.91
Distributions:					
Dividends from investment income—net	(.16)	(.03)	–	(.10)	(.02)
Net asset value, end of period	30.50	28.45	26.08	25.17	23.79
Total Return (%)	7.78	9.20	3.62	6.21	26.00
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.82	.83	.81	.82	.84
Ratio of net investment income to average net assets	.58	.50	.10	.38	.12
Portfolio Turnover Rate	22.71	32.19	94.99	55.54	63.17
Net Assets, end of period ($ x 1,000)	331,313	374,537	418,916	488,994	521,262

[a] *Based on average shares outstanding at each month end.*
See notes to financial statements.

Service Shares	2007	2006	2005	2004	2003
	Year Ended December 31,				
Per Share Data ($):					
Net asset value, beginning of period	28.21	25.90	25.06	23.69	18.84
Investment Operations:					
Investment income (loss)—net[a]	.10	.07	(.04)	.04	(.03)
Net realized and unrealized gain (loss) on investments	2.02	2.24	.88	1.37	4.88
Total from Investment Operations	2.12	2.31	.84	1.41	4.85
Distributions:					
Dividends from investment income—net	(.08)	–	–	(.04)	(.00)[b]
Net asset value, end of period	30.25	28.21	25.90	25.06	23.69
Total Return (%)	7.49	8.96	3.35	5.94	25.75
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.07	1.08	1.06	1.06	1.09
Ratio of net investment income (loss) to average net assets	.33	.25	(.15)	.17	(.14)
Portfolio Turnover Rate	22.71	32.19	94.99	55.54	63.17
Net Assets, end of period ($ x 1,000)	8,924	11,372	12,311	13,492	12,202

[a] *Based on average shares outstanding at each month end.*
[b] *Amount represents less than $.01 per share.*
See notes to financial statements.

NOTE 1—Significant Accounting Policies:

The Dreyfus Socially Responsible Growth Fund, Inc. (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified open-end management investment company. The fund'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.

On July 1, 2007, Mellon Financial Corporation and The Bank of New York Company, Inc. merged, forming The Bank of New York Mellon Corporation ("BNY Mellon"). As part of this transaction, Dreyfus became a wholly-owned subsidiary of BNY Mellon.

MBSC Securities Corporation (the "Distributor"), a wholly-owned subsidiary of the Manager, is the distributor of the funds'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, the allocation of certain transfer agency costs and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The 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 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. Registered open-end investment companies that are not traded on an exchange 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 ADRs 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.

The Financial Accounting Standards Board ("FASB") released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management does not believe that the application of this standard will have a material impact on the financial statements of the fund.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income, including, where applicable, accretion of discount and amortization of premium on investments, is recognized on the accrual basis.

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, if any, as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with Mellon Bank, N.A. ('Mellon Bank"), an affiliate of the Manager, the fund may lend securities to qualified institutions. It is the fund's policy, that at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan is maintained at all times. Collaterals are either in the form of cash, which can be invested in certain money market mutual funds managed by the Manager, U.S. Government and Agency securities or Letters of Credit. The fund is 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 bears 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. During the period ended December 31, 2007, Mellon Bank earned $32,285 from lending fund portfolio securities, pursuant to the securities lending agreement.

(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 gains, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the "Code"). To the extent that net realized capital gains can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from 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.

During the current year, the fund adopted FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The adoption of FIN 48 had no impact on the operations of the fund for the period ended December 31, 2007.

The fund is not subject to examination by U.S. Federal, State and City tax authorities for the tax years before 2004.

At December 31, 2007, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $2,050,302, accumulated capital losses $178,903,115 and unrealized appreciation $57,495,523. In addition, the fund had $206,920 of capital losses realized after October 31, 2007 which were deferred for tax purposes to the first day of the following fiscal year.

The accumulated capital loss carryover is available to be applied against future net securities profits, if any, realized subsequent to December 31, 2007. If not applied, $55,297,899 of the carryover expires in fiscal 2009, $103,833,733 expires in fiscal 2010 and $19,771,483 expires in fiscal 2011.

The tax characters of distributions paid to shareholders during the fiscal periods ended December 31, 2007 and December 31, 2006 were as follows: ordinary income $1,975,136 and $431,631, respectively.

During the period ended December 31, 2007, as a result of permanent book to tax differences, primarily due to the tax treatment for real estate investment companies, the fund decreased accumulated undistributed investment income-net by $28,524 and increased net realized gain (loss) on investments by the same amount. Net assets and net asset value per share 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 borrowing.

The average daily amount of borrowing outstanding under the Facility during the period ended December 31, 2007 was approximately $93,000, with a related weighted average annualized interest rate of 5.68%.

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 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 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, 2007, Service shares were charged $24,554 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 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, 2007, Initial shares were charged $22,027 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, 2007, the fund was charged $1,212 pursuant to the transfer agency agreement.

The fund compensates Mellon Bank, an affiliate of the Manager, under a custody agreement for providing custodial services for the fund. During the period ended December 31, 2007, the fund was charged $31,492 pursuant to the custody agreement.

During the period ended December 31, 2007, the fund was charged $4,821 for services performed by the Chief Compliance Officer.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: investment advisory fees $219,944, Rule 12b-1 distribution plan fees $1,906, custodian fees $13,170, chief compliance officer fees $3,616 and transfer agency per account fees $216.

(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, 2007, amounted to $82,679,272 and $152,388,994, respectively.

At December 31, 2007, the cost of investments for federal income tax purposes was $290,652,969; accordingly, accumulated net unrealized appreciation on investments was $57,495,523, consisting of $68,758,720 gross unrealized appreciation and $11,263,197 gross unrealized depreciation.

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, 2007, 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 years 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. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included 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, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007 by correspondence with the custodian. 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, 2007, 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 years, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

New York, New York
February 11, 2008

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, 2007 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in January 2008 of the percentage applicable to the preparation of their 2007 income tax returns.

INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited)

At a meeting of the Board of Directors of the fund held on July 19-20, 2007, the Board considered the re-approval of the fund's Management Agreement for another one year term, pursuant to which the Manager provides the fund with investment advisory and administrative services. The Board members, none of whom are "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the fund, were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of the Manager.

Analysis of Nature, Extent and Quality of Services Provided to the Fund. The Board members received a presentation from representatives of the Manager regarding services provided to the fund and other funds in the Dreyfus fund complex, and discussed the nature, extent and quality of the services provided to the fund pursuant to the fund's Management Agreement. The Manager's representatives reviewed the fund's distribution of accounts and the relationships the Manager has with various intermediaries and the different needs of each. The Board members noted that the fund's shares are offered only to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The Manager's representatives noted the diversity of distribution of the funds in the Dreyfus fund complex, and the Manager's corresponding need for broad, deep and diverse resources to be able to provide ongoing shareholder services to each distribution channel, including that of the fund. The Board also reviewed the number of shareholder accounts in the fund, as well as the fund's asset size.

The Board members also considered the Manager's research and portfolio management capabilities and that the Manager also provides oversight of day-to-day fund operations, including fund accounting and administration and assistance in meeting legal and regulatory requirements, and the Manager's extensive administrative, accounting and compliance infrastructure.

Comparative Analysis of the Fund's Management Fee, Expense Ratio and Performance. The Board members reviewed reports prepared by Lipper, Inc., an independent provider of investment company data, which included information comparing the fund's management fee and expense ratio with a group of comparable funds and a broader group of funds that were selected by Lipper and are not required to use one or more social screens when choosing securities for the funds' portfolios ("Expense Group I" and "Expense Universe I," respectively) and with a group of funds and a broader group of funds that were selected by Lipper and use one or more social screens when choosing securities for the funds' portfolios ("Expense Group II" and "Expense Universe II," respectively). The fund's portfolio managers use social screens when choosing securities for the fund's portfolio, as described in the fund's prospectus. Included in these reports were comparisons of contractual and actual management fee rates, total operating expenses and performance. The Manager furnished these reports to the Board along with a description of the methodology Lipper used to select each Expense Group and Expense Universe.

The Board reviewed the results of the comparisons for each Expense Group and Expense Universe. The Board reviewed the range of management fees and expense ratios of the funds in each Expense Group and Expense Universe, and noted that the expense ratio of the fund's Initial shares (which are not subject to a Rule 12b-1 plan) ranked in the third quintile of Expense Group I and in the second quintile of each Expense Universe and Expense Group II. The Board also noted that the expense ratio of the fund's Service shares (which are subject to a Rule 12b-1 plan) was above the medians of each Expense Group and of each Expense Universe.

The Board members also reviewed the reports prepared by Lipper that presented the fund's performance and comparisons of performance to two groups of funds composed of the same funds included in Expense Group I and Expense Group II ("Performance Group I" and "Performance Group II," respectively) and to two corresponding broader groups of funds ("Performance Universe I" and "Performance Universe II," respectively). The Manager also provided a comparison of the fund's calendar year total returns to the returns of its benchmark index. The Board noted that the performance of the fund's Initial shares was above the medians of each Performance Group and of each Performance Universe for the 1-year period ended May 31, 2007 and was below the medians of each Performance Group and of each Performance Universe for the other reported periods. The Manager reminded the Board that in December 2005 the fund's investment strategy was revised and new portfolio managers were appointed.

Representatives of the Manager noted that the Manager or its affiliates do not manage other mutual funds or accounts with substantially similar investment objectives, policies and strategies as the fund.

Analysis of Profitability and Economies of Scale. The Manager's representatives reviewed the dollar amount of expenses allocated and profit received by the Manager and the method used to determine such expenses and profit. The Board previously had been provided with information prepared by an independent consulting firm regarding the Manager's approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus mutual fund complex. The Board members also had been informed that the methodology had been reviewed by an independent registered public accounting firm which, like the consultant, found the methodology to be reasonable. The consulting firm also analyzed where any economies of scale might emerge in connection with the management of the fund. The Board members evaluated the profitability analysis in light of the relevant circumstances for the fund, including any decline in assets, and the extent to which economies of scale would be realized if the fund grows and whether fee levels reflect these economies of scale for the benefit of fund shareholders. The Board members also considered potential benefits to the Manager from acting as investment adviser to the fund, including any soft dollar arrangements with respect to trading the fund's portfolio.

It was noted that the Board members should consider the Manager's profitability with respect to the fund as part of their evaluation of whether the fee under the Management Agreement bears a reasonable relationship to the mix of services provided by the Manager, including the nature, extent and quality of such services. It was noted that the profitability percentage for managing the fund was within ranges determined by appropriate court cases to be reasonable given the services rendered and that the profitability percentage for managing the fund was reasonable given the services provided.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to continuation of the fund's Management Agreement. Based on the discussions and considerations as described above, the Board made the following conclusions and determinations with respect to the fund:

- The Board concluded that the nature, extent and quality of the services provided by the Manager to the fund are adequate and appropriate.
- While the Board was concerned with the fund's performance, the Board believed the Manager was seeking to improve it.
- The Board concluded that the fee paid to the Manager by the fund was reasonable in light of the services provided, comparative performance and expense and management fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by the Manager from its relationship with the fund.
- The Board determined that the economies of scale which may accrue to the Manager and its affiliates in connection with the management of the fund had been adequately considered by the Manager in connection with the management fee rate charged to the fund, and that, to the extent in the future it were determined that material economies of scale had not been shared with the fund, the Board would seek to have those economies of scale shared with the fund.

The Board members considered these conclusions and determinations, along with the information received on a routine and regular basis throughout the year, and, without any one factor being dispositive, the Board determined that re-approval of the fund's Management Agreement was in the best interests of the fund and its shareholders.

Joseph S. DiMartino (64)
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
• 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
• Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director

No. of Portfolios for which Board Member Serves: 163

Clifford L. Alexander, Jr. (74)
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)

Other Board Memberships and Affiliations:
• Mutual of America Life Insurance Company, Director

No. of Portfolios for which Board Member Serves: 51

David W. Burke (71)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Corporate Director and Trustee

Other Board Memberships and Affiliations:
• John F. Kennedy Library Foundation, Director

No. of Portfolios for which Board Member Serves: 85

Whitney I. Gerard (73)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Partner of Chadbourne & Parke LLP

No. of Portfolios for which Board Member Serves: 28

George L. Perry (73)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Economist and Senior Fellow at Brookings Institution

No. of Portfolios for which Board Member Serves: 26

Once elected all Board Members serve for an indefinite term, but achieve Emeritus status upon reaching age 80. 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.

Lucy Wilson Benson, Emeritus Board Member
Arthur A. Hartman, Emeritus Board Member

OFFICERS OF THE FUND (Unaudited)

J. DAVID OFFICER, President since December 2006.

Chief Operating Officer, Vice Chairman and a Director of the Manager, and an officer of 78 investment companies (comprised of 163 portfolios) managed by the Manager. He is 59 years old and has been an employee of the Manager since April 1998.

PHILLIP N. MAISANO, Executive Vice President since July 2007.

Chief Investment Officer, Vice Chair and a director of the Manager, and an officer of 78 investment companies (comprised of 163 portfolios) managed by the Manager. Mr. Maisano also is an officer and/or Board member of certain other investment management subsidiaries of The Bank of New York Mellon Corporation, each of which is an affiliate of the Manager. He is 60 years old and has been an employee of the Manager since November 2006. Prior to joining the Manager, Mr. Maisano served as Chairman and Chief Executive Officer of EACM Advisors, an affiliate of the Manager, since August 2004, and served as Chief Executive Officer of Evaluation Associates, a leading institutional investment consulting firm, from 1988 until 2004.

MICHAEL A. ROSENBERG, Vice President and Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 47 years old and has been an employee of the Manager since October 1991.

JAMES BITETTO, Vice President and Assistant Secretary since August 2005.

Associate General Counsel and Secretary of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 41 years old and has been an employee of the Manager since December 1996.

JONI LACKS CHARATAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. She is 52 years old and has been an employee of the Manager since October 1988.

JOSEPH M. CHIOFFI, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 46 years old and has been an employee of the Manager since June 2000.

JANETTE E. FARRAGHER, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. She is 45 years old and has been an employee of the Manager since February 1984.

JOHN B. HAMMALIAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since February 1991.

ROBERT R. MULLERY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 55 years old and has been an employee of the Manager since May 1986.

JEFF PRUSNOFSKY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since October 1990.

JAMES WINDELS, Treasurer since November 2001.

Director – Mutual Fund Accounting of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since April 1985.

ROBERT ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 43 years old and has been an employee of the Manager since October 1988.

ROBERT SALVIOLO, Assistant Treasurer since May 2007.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since June 1989.

ROBERT SVAGNA, Assistant Treasurer since December 2002.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since November 1990.

GAVIN C. REILLY, Assistant Treasurer since December 2005.

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 79 investment companies (comprised of 180 portfolios) managed by the Manager. He is 39 years old and has been an employee of the Manager since April 1991.

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

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (79 investment companies, comprised of 180 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 50 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 75 investment companies (comprised of 176 portfolios) managed by the Manager. He is 37 years old and has been an employee of the Distributor since October 1998.

For More Information

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

MBSC Securities Corporation
200 Park Avenue
New York, NY 10166

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

Mail The Dreyfus Family of Funds, 144 Glenn Curtiss Boulevard, Uniondale, NY 11556-0144
Attn: Investments Division

The fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q are available on the SEC's website at http://www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-202-551-8090.

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, 2007, is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-645-6561.

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December 31, 2007

ANNUAL REPORT

DWS INVESTMENTS VIT FUNDS

DWS Equity 500 Index VIP

ONE GLOBAL FORCE. ONE FOCUS. YOU.

DWS SCUDDER

Deutsche Bank Group

Contents

This report must be preceded or accompanied by a prospectus. To obtain an additional prospectus, call (800) 778-1482 or your financial representative. We advise you to consider the portfolio's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the portfolio. Please read the prospectus carefully before you invest.

The portfolio is subject to investment risks, including possible loss of principal amount invested. There is no guarantee that the portfolio will be able to mirror the S&P 500® Index closely enough to track its performance. Please read the prospectus for specific details regarding its investments and risk profile.

Performance Summary

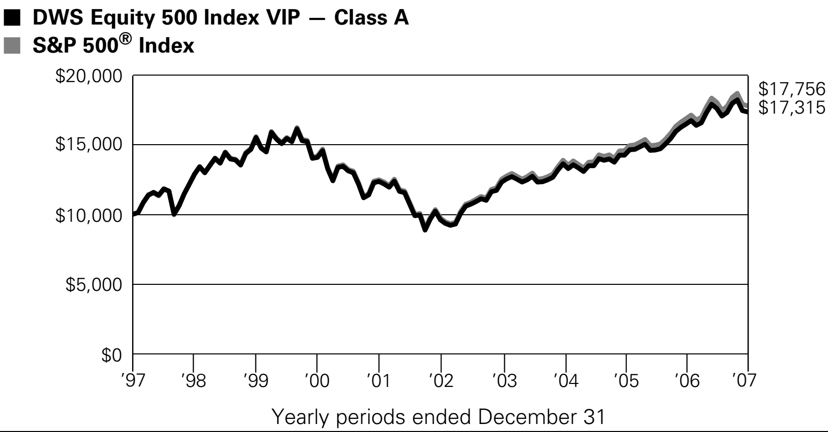
December 31, 2007

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance figures for Classes A, B and B2 differ because each class maintains a distinct expense structure. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the 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 total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 0.31%, 0.56% and 0.70% for Class A, Class B and Class B2 shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

Portfolio returns during all periods shown reflect a fee waiver/and or reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment



The Standard & Poor's (S&P) 500® Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results (as of December 31, 2007)

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,530	$12,733	$18,046	$17,315
	Average annual total return	5.30%	8.39%	12.53%	5.64%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$17,756
	Average annual total return	5.49%	8.62%	12.83%	5.91%

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,503	$12,639	$17,823	$14,693
	Average annual total return	5.03%	8.12%	12.25%	7.02%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$15,123
	Average annual total return	5.49%	8.62%	12.83%	7.57%

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Class**
Class B2	Growth of $10,000	$10,485	N/A	N/A	$12,219
	Average annual total return	4.85%	N/A	N/A	9.15%
S&P 500 Index	Growth of $10,000	$10,549	N/A	N/A	$12,471
	Average annual total return	5.49%	N/A	N/A	10.31%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on April 30, 2002. Index returns began on April 30, 2002.*

** *The Portfolio commenced offering Class B2 shares on September 16, 2005. Index returns began on September 30, 2005.*

Information concerning portfolio holdings of the Portfolio as of a month end will be posted to www.dws-scudder.com on or after the last day of the following month.

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 contract charges, 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 period, the Portfolio limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the period and held for the entire six-month period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$ 985.40	$ 984.10	$ 983.50
Expenses Paid per $1,000*	$ 1.40	$ 2.65	$ 3.15

Hypothetical 5% Portfolio Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,023.79	$1,022.53	$1,022.03
Expenses Paid per $1,000*	$ 1.43	$ 2.70	$ 3.21

* *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**	**Class B2**
DWS Equity 500 Index VIP	0.28%	0.53%	0.63%

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

These tables do not 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.

Management Summary

Except for a period of weakness in late February and early March, equity markets were quite strong during the first half of 2007. By the end of May, most indices were at or near their all-time highs, and positive trends continued through mid-July before drifting lower in the late summer. A rally in September was sparked in part by the first of the US Federal Reserve Board's (the Fed's) three interest rate reductions. Volatility increased in the fourth quarter, as markets responded to further bad news about the potential impact of the subprime mortgage crisis.

For the full year, the Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, returned 5.14%. Growth stocks, as measured by the Russell 1000® Growth Index, performed significantly better than value stocks, as measured by the Russell 1000® Value Index. The Portfolio returned 5.30% (Class A shares, unadjusted for contract charges). Since the Portfolio's investment strategy is to replicate, as closely as possible, before the deduction of expenses, the performance of the Standard & Poor's 500® (S&P 500) Index, the Portfolio's return is normally quite close to return of the index, which was 5.49%.

Although eight of the 10 industry sectors into which the S&P 500 Index is divided had positive returns, there was great divergence among sector performance during 2007. The best-performing sectors were energy, with a return of 34.8%, and materials, with a return of 22.5%. The weakest sector was financials, with a return of –18.6%, which weakened throughout the year as problems in the subprime mortgage market affected the entire financial sector. Also negative was the consumer discretionary sector, which includes many retailers and housing stocks.

Brent Reeder
Vice President
Northern Trust Investments, N.A. (NTI), Subadvisor to the Portfolio

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio's most recent month-end performance. Performance figures for Classes A and B differ because each class maintains a distinct expense structure. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the 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 investment risks, including possible loss of principal amount invested. 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, the flow of money into and out of the Portfolio and the potential underperformance of stocks selected. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell 3000 Index measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

The Russell 1000 Growth Index is an unmanaged, capitalization-weighted index consisting of those stocks in the Russell 1000 Index that have greater-than-average growth orientation.

The Russell 1000 Value Index is an unmanaged, capitalization-weighted 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 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance does not guarantee future results.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	99%	97%
Cash Equivalents	1%	3%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Financials	18%	22%
Information Technology	17%	15%
Energy	13%	10%
Health Care	12%	12%
Industrials	11%	11%
Consumer Staples	10%	9%
Consumer Discretionary	8%	11%
Telecommunication Services	4%	3%
Utilities	4%	4%
Materials	3%	3%
	100%	100%

Ten Largest Equity Holdings (19.8% of Net Assets)	
1. ExxonMobil Corp. Explorer and producer of oil and gas	**4.0%**
2. General Electric Co. Manufactures, distributes and markets electrical products	**2.9%**
3. Microsoft Corp. Developer of computer software	**2.2%**
4. AT&T, Inc. Provider of communications services	**1.9%**
5. Procter & Gamble Co. Manufacturer of diversified consumer products	**1.8%**
6. Chevron Corp. Operator of petroleum exploration, delivery and refining facilities	**1.5%**
7. Johnson & Johnson Provider of health care products	**1.5%**
8. Bank of America Corp. Provider of commercial banking services	**1.4%**
9. Apple, Inc. Manufacturer of personal computers and related personal computing and communication solutions	**1.3%**
10. Cisco Systems, Inc. Developer of computer network products	**1.3%**

Asset allocation, sector diversification, and holdings are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 7. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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 ($)
Common Stocks 99.3%		
Consumer Discretionary 8.4%		
Auto Components 0.2%		
Goodyear Tire & Rubber Co.*	20,894	589,629
Johnson Controls, Inc.	52,738	1,900,677
		2,490,306
Automobiles 0.3%		
Ford Motor Co.* (a)	186,475	1,254,977
General Motors Corp.	51,966	1,293,433
Harley-Davidson, Inc. (a)	21,586	1,008,282
		3,556,692
Distributors 0.1%		
Genuine Parts Co.	15,009	**694,917**
Diversified Consumer Services 0.1%		
Apollo Group, Inc. "A"*	12,244	858,916
H&R Block, Inc.	27,896	518,029
		1,376,945
Hotels Restaurants & Leisure 1.4%		
Carnival Corp.	39,046	1,737,157
Darden Restaurants, Inc.	12,254	339,558
Harrah's Entertainment, Inc.	16,619	1,474,936
International Game Technology	28,056	1,232,500
Marriott International, Inc. "A"	28,340	968,661
McDonald's Corp.	105,991	6,243,930
Starbucks Corp.*	66,228	1,355,687
Starwood Hotels & Resorts Worldwide, Inc.	17,625	776,029
Wendy's International, Inc.	7,711	199,252
Wyndham Worldwide Corp.	15,837	373,120
Yum! Brands, Inc.	46,216	1,768,686
		16,469,516
Household Durables 0.4%		
Black & Decker Corp.	5,622	391,572
Centex Corp.	12,035	304,004
D.R. Horton, Inc.	24,600	323,982
Fortune Brands, Inc.	13,655	988,076
Harman International Industries, Inc.	5,400	398,034
KB HOME	6,892	148,867
Leggett & Platt, Inc. (a)	15,164	264,460
Lennar Corp. "A" (a)	12,600	225,414
Newell Rubbermaid, Inc.	23,497	608,103
Pulte Homes, Inc.	18,582	195,854
Snap-on, Inc.	5,193	250,510
The Stanley Works	7,256	351,771
Whirlpool Corp.	6,888	562,268
		5,012,915
Internet & Catalog Retail 0.3%		
Amazon.com, Inc.*	27,328	2,531,666
Expedia, Inc.*	18,153	573,998
IAC/InterActiveCorp.*	17,100	460,332
		3,565,996
Leisure Equipment & Products 0.1%		
Brunswick Corp.	7,906	134,797
Eastman Kodak Co. (a)	25,007	546,903
Hasbro, Inc.	13,086	334,740
Mattel, Inc.	32,598	620,666
		1,637,106

	Shares	Value ($)
Media 2.8%		
CBS Corp. "B"	60,887	1,659,171
Clear Channel Communications, Inc.	45,752	1,579,359
Comcast Corp. "A"*	274,487	5,012,133
E.W. Scripps Co. "A"	7,500	337,575
Gannett Co., Inc.	21,542	840,138
Interpublic Group of Companies, Inc.*	39,697	321,943
McGraw-Hill Companies, Inc.	30,264	1,325,866
Meredith Corp.	3,424	188,252
New York Times Co. "A" (a)	12,910	226,312
News Corp. "A"	205,554	4,211,801
Omnicom Group, Inc.	29,332	1,394,150
The DIRECTV Group, Inc.*	63,700	1,472,744
Time Warner, Inc.	323,130	5,334,876
Viacom, Inc. "B"*	58,687	2,577,533
Walt Disney Co.	170,180	5,493,410
Washington Post Co. "B"	518	409,961
		32,385,224
Multiline Retail 0.8%		
Big Lots, Inc.* (a)	9,092	145,381
Dillard's, Inc. "A" (a)	5,251	98,614
Family Dollar Stores, Inc.	12,570	241,721
J.C. Penney Co., Inc.	19,822	871,970
Kohl's Corp.*	28,078	1,285,972
Macy's, Inc.	38,708	1,001,376
Nordstrom, Inc.	16,848	618,827
Sears Holdings Corp.* (a)	6,543	667,713
Target Corp.	74,210	3,710,500
		8,642,074
Specialty Retail 1.5%		
Abercrombie & Fitch Co. "A"	7,700	615,769
AutoNation, Inc.*	13,551	212,209
AutoZone, Inc.*	4,091	490,552
Bed Bath & Beyond, Inc.*	24,316	714,647
Best Buy Co., Inc.	31,336	1,649,840
Circuit City Stores, Inc.	13,030	54,726
GameStop Corp. "A"*	14,100	875,751
Home Depot, Inc.	150,885	4,064,842
Limited Brands, Inc.	27,770	525,686
Lowe's Companies, Inc.	131,300	2,970,006
Office Depot, Inc.*	24,403	339,446
OfficeMax, Inc.	6,741	139,269
RadioShack Corp.	12,345	208,137
Staples, Inc.	63,789	1,471,612
The Gap, Inc.	41,632	885,929
The Sherwin-Williams Co.	9,389	544,938
Tiffany & Co.	12,000	552,360
TJX Companies, Inc.	39,058	1,122,136
		17,437,855
Textiles, Apparel & Luxury Goods 0.4%		
Coach, Inc.*	32,900	1,006,082
Jones Apparel Group, Inc.	8,094	129,423
Liz Claiborne, Inc.	8,624	175,498
NIKE, Inc. "B"	34,450	2,213,068
Polo Ralph Lauren Corp.	5,300	327,487
VF Corp.	7,887	541,522
		4,393,080

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

	Shares	Value ($)
Consumer Staples 10.2%		
Beverages 2.4%		
Anheuser-Busch Companies, Inc.	65,609	3,433,975
Brown-Forman Corp. "B"	7,080	524,699
Coca-Cola Co.	179,114	10,992,226
Coca-Cola Enterprises, Inc.	25,150	654,655
Constellation Brands, Inc. "A"*	17,900	423,156
Molson Coors Brewing Co. "B"	12,984	670,234
Pepsi Bottling Group, Inc.	12,211	481,846
PepsiCo, Inc.	143,446	10,887,551
		28,068,342
Food & Staples Retailing 2.3%		
Costco Wholesale Corp.	38,845	2,709,827
CVS Caremark Corp.	131,490	5,226,727
Kroger Co.	63,263	1,689,755
Safeway, Inc.	39,027	1,335,114
SUPERVALU, Inc.	18,648	699,673
Sysco Corp.	54,157	1,690,240
Wal-Mart Stores, Inc.	211,227	10,039,619
Walgreen Co.	88,696	3,377,544
Whole Foods Market, Inc. (a)	12,300	501,840
		27,270,339
Food Products 1.5%		
Archer-Daniels-Midland Co.	57,107	2,651,478
Campbell Soup Co.	19,485	696,199
ConAgra Foods, Inc.	44,505	1,058,774
Dean Foods Co.	11,600	299,976
General Mills, Inc.	29,328	1,671,696
H.J. Heinz Co.	28,979	1,352,740
Kellogg Co.	22,032	1,155,138
Kraft Foods, Inc. "A"	139,982	4,567,613
McCormick & Co., Inc.	12,214	463,033
Sara Lee Corp.	64,339	1,033,284
The Hershey Co.	15,246	600,692
Tyson Foods, Inc. "A"	22,800	349,524
Wm. Wrigley Jr. Co.	19,333	1,131,947
		17,032,094
Household Products 2.4%		
Clorox Co.	12,230	797,029
Colgate-Palmolive Co.	45,321	3,533,225
Kimberly-Clark Corp.	37,747	2,617,377
Procter & Gamble Co.	277,755	20,392,772
		27,340,403
Personal Products 0.2%		
Avon Products, Inc.	38,470	1,520,719
Estee Lauder Companies, Inc. "A"	10,200	444,822
		1,965,541
Tobacco 1.4%		
Altria Group, Inc.	187,970	14,206,773
Reynolds American, Inc.	15,228	1,004,439
UST, Inc.	14,135	774,598
		15,985,810
Energy 12.8%		
Energy Equipment & Services 2.6%		
Baker Hughes, Inc.	28,371	2,300,888
BJ Services Co.	25,886	627,994
ENSCO International, Inc.	13,200	786,984
Halliburton Co.	79,073	2,997,657
Nabors Industries Ltd.*	24,996	684,641
National-Oilwell Varco, Inc.*	31,600	2,321,336
Noble Corp.	23,890	1,350,024
Rowan Companies, Inc.	9,782	385,998
Schlumberger Ltd.	107,918	10,615,894
Smith International, Inc.	17,800	1,314,530
Transocean, Inc.*	28,099	4,022,372
Weatherford International Ltd.*	29,944	2,054,158
		29,462,476
Oil, Gas & Consumable Fuels 10.2%		
Anadarko Petroleum Corp.	43,214	2,838,728
Apache Corp.	29,453	3,167,376
Chesapeake Energy Corp.	39,400	1,544,480
Chevron Corp.	188,782	17,619,024
ConocoPhillips	142,942	12,621,778
CONSOL Energy, Inc.	16,300	1,165,776
Devon Energy Corp.	40,892	3,635,708
El Paso Corp.	62,154	1,071,535
EOG Resources, Inc.	21,857	1,950,737
ExxonMobil Corp.	488,404	45,758,571
Hess Corp.	24,550	2,476,113
Marathon Oil Corp.	63,542	3,867,166
Murphy Oil Corp.	16,300	1,382,892
Noble Energy, Inc.	15,300	1,216,656
Occidental Petroleum Corp.	73,788	5,680,938
Peabody Energy Corp.	24,100	1,485,524
Range Resources Corp.	10,100	518,736
Spectra Energy Corp.	56,191	1,450,852
Sunoco, Inc.	10,516	761,779
Tesoro Corp.	12,200	581,940
Valero Energy Corp. (a)	49,172	3,443,515
Williams Companies, Inc.	53,287	1,906,609
XTO Energy, Inc.	43,485	2,233,389
		118,379,822
Financials 17.5%		
Capital Markets 3.3%		
American Capital Strategies Ltd. (a)	16,100	530,656
Ameriprise Financial, Inc.	20,905	1,152,075
Bank of New York Mellon Corp.	101,248	4,936,852
Bear Stearns Companies, Inc.	10,330	911,623
Charles Schwab Corp.	84,963	2,170,805
E*TRADE Financial Corp.* (a)	37,800	134,190
Federated Investors, Inc. "B"	7,200	296,352
Franklin Resources, Inc.	14,352	1,642,299
Janus Capital Group, Inc.	14,871	488,512
Legg Mason, Inc.	11,800	863,170
Lehman Brothers Holdings, Inc.	47,142	3,084,972
Merrill Lynch & Co., Inc.	77,172	4,142,593
Morgan Stanley	93,840	4,983,842
Northern Trust Corp.	16,549	1,267,322
State Street Corp.	34,565	2,806,678
T. Rowe Price Group, Inc.	23,520	1,431,898
The Goldman Sachs Group, Inc.	35,933	7,727,392
		38,571,231
Commercial Banks 3.0%		
BB&T Corp.	48,834	1,497,739
Comerica, Inc.	13,737	597,972
Commerce Bancorp, Inc.	17,300	659,822
Fifth Third Bancorp	47,806	1,201,365
First Horizon National Corp. (a)	10,698	194,169
Huntington Bancshares, Inc.	33,160	489,441
KeyCorp.	34,629	812,050

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

	Shares	Value ($)
M&T Bank Corp.	6,650	542,440
Marshall & Ilsley Corp.	21,852	578,641
National City Corp.	56,876	936,179
PNC Financial Services Group, Inc.	30,326	1,990,902
Regions Financial Corp.	62,561	1,479,568
SunTrust Banks, Inc.	30,971	1,935,378
Synovus Financial Corp.	30,503	734,512
US Bancorp.	156,554	4,969,024
Wachovia Corp.	179,299	6,818,741
Wells Fargo & Co.	298,248	9,004,107
Zions Bancorp.	9,511	444,068
		34,886,118
Consumer Finance 0.8%		
American Express Co.	105,025	5,463,400
Capital One Financial Corp.	34,702	1,640,017
Discover Financial Services	42,370	638,940
SLM Corp.	46,078	928,011
		8,670,368
Diversified Financial Services 4.4%		
Bank of America Corp.	397,886	16,416,776
CIT Group, Inc.	16,924	406,684
Citigroup, Inc.	443,831	13,066,385
CME Group, Inc.	4,800	3,292,800
IntercontinentalExchange, Inc.*	6,500	1,251,250
JPMorgan Chase & Co.	301,362	13,154,451
Leucadia National Corp.	14,600	687,660
Moody's Corp.	19,452	694,436
NYSE Euronext	23,500	2,062,595
		51,033,037
Insurance 4.3%		
ACE Ltd.	29,176	1,802,493
Aflac, Inc.	44,237	2,770,563
Allstate Corp.	50,956	2,661,432
Ambac Financial Group, Inc. (a)	8,978	231,363
American International Group, Inc.	226,681	13,215,502
Aon Corp.	25,983	1,239,129
Assurant, Inc.	8,600	575,340
Chubb Corp.	34,870	1,903,205
Cincinnati Financial Corp.	15,309	605,318
Genworth Financial, Inc. "A"	38,000	967,100
Hartford Financial Services Group, Inc.	28,234	2,461,723
Lincoln National Corp.	24,069	1,401,297
Loews Corp.	39,470	1,986,920
Marsh & McLennan Companies, Inc.	48,113	1,273,551
MBIA, Inc. (a)	11,264	209,848
MetLife, Inc.	65,932	4,062,730
Principal Financial Group, Inc.	23,611	1,625,381
Progressive Corp. (a)	64,256	1,231,145
Prudential Financial, Inc.	40,763	3,792,590
Safeco Corp.	9,218	513,258
The Travelers Companies, Inc.	57,871	3,113,460
Torchmark Corp.	8,510	515,110
Unum Group	31,165	741,416
XL Capital Ltd. "A"	15,877	798,772
		49,698,646
Real Estate Investment Trusts 1.0%		
Apartment Investment & Management Co. "A" (REIT)	7,700	267,421
AvalonBay Communities, Inc. (REIT)	7,100	668,394
Boston Properties, Inc. (REIT)	10,600	973,186
Developers Diversified Realty Corp. (REIT)	13,200	505,428
Equity Residential (REIT)	24,930	909,197
General Growth Properties, Inc. (REIT)	22,600	930,668
Host Hotels & Resorts, Inc. (REIT)	46,400	790,656
Kimco Realty Corp. (REIT)	21,000	764,400
Plum Creek Timber Co., Inc. (REIT)	15,900	732,036
ProLogis (REIT)	22,800	1,445,064
Public Storage (REIT)	10,546	774,182
Simon Property Group, Inc. (REIT)	19,941	1,732,075
Vornado Realty Trust (REIT)	11,700	1,029,015
		11,521,722
Real Estate Management & Development 0.0%		
CB Richard Ellis Group, Inc. "A"*	17,000	**366,350**
Thrifts & Mortgage Finance 0.7%		
Countrywide Financial Corp. (a)	51,138	457,174
Fannie Mae	86,550	3,460,269
Freddie Mac	57,963	1,974,800
Hudson City Bancorp, Inc.	49,000	735,980
MGIC Investment Corp.	7,442	166,924
Sovereign Bancorp, Inc. (a)	31,798	362,497
Washington Mutual, Inc. (a)	77,843	1,059,443
		8,217,087

Health Care 11.9%

	Shares	Value ($)
Biotechnology 1.1%		
Amgen, Inc.*	96,516	4,482,203
Biogen Idec, Inc.*	25,560	1,454,875
Celgene Corp.*	34,500	1,594,245
Genzyme Corp.*	23,403	1,742,119
Gilead Sciences, Inc.*	84,472	3,886,557
		13,159,999
Health Care Equipment & Supplies 1.7%		
Baxter International, Inc.	57,603	3,343,854
Becton, Dickinson & Co.	21,878	1,828,563
Boston Scientific Corp.*	116,665	1,356,814
C.R. Bard, Inc.	8,898	843,530
Covidien Ltd.	44,188	1,957,087
Hospira, Inc.*	13,720	585,021
Medtronic, Inc.	100,725	5,063,446
St. Jude Medical, Inc.*	30,488	1,239,032
Stryker Corp.	21,182	1,582,719
Varian Medical Systems, Inc.*	11,400	594,624
Zimmer Holdings, Inc.*	21,084	1,394,707
		19,789,397
Health Care Providers & Services 2.4%		
Aetna, Inc.	44,772	2,584,687
AmerisourceBergen Corp.	16,482	739,547
Cardinal Health, Inc.	32,600	1,882,650
CIGNA Corp.	24,905	1,338,146
Coventry Health Care, Inc.*	13,895	823,279
Express Scripts, Inc.*	22,568	1,647,464
Humana, Inc.*	14,775	1,112,705
Laboratory Corp. of America Holdings*	10,291	777,279
McKesson Corp.	26,415	1,730,447
Medco Health Solutions, Inc.*	23,964	2,429,950
Patterson Companies, Inc.*	12,700	431,165
Quest Diagnostics, Inc.	13,916	736,156
Tenet Healthcare Corp.*	43,100	218,948

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

	Shares	Value ($)
UnitedHealth Group, Inc.	115,508	6,722,566
WellPoint, Inc.*	50,688	4,446,858
		27,621,847
Health Care Technology 0.0%		
IMS Health, Inc.	16,930	**390,067**
Life Sciences Tools & Services 0.4%		
Applera Corp. — Applied Biosystems Group	16,029	543,704
Millipore Corp.*	4,815	352,362
PerkinElmer, Inc.	11,136	289,759
Thermo Fisher Scientific, Inc.*	37,821	2,181,515
Waters Corp.*	8,900	703,723
		4,071,063
Pharmaceuticals 6.3%		
Abbott Laboratories	137,482	7,719,614
Allergan, Inc.	27,424	1,761,718
Barr Pharmaceuticals, Inc.*	9,200	488,520
Bristol-Myers Squibb Co.	179,162	4,751,376
Eli Lilly & Co.	87,937	4,694,956
Forest Laboratories, Inc.*	28,095	1,024,063
Johnson & Johnson	257,034	17,144,168
King Pharmaceuticals, Inc.*	21,886	224,113
Merck & Co., Inc.	193,259	11,230,281
Mylan, Inc. (a)	23,336	328,104
Pfizer, Inc.	610,589	13,878,688
Schering-Plough Corp.	143,850	3,832,164
Watson Pharmaceuticals, Inc.*	9,355	253,895
Wyeth	119,376	5,275,225
		72,606,885

Industrials 11.4%

	Shares	Value ($)
Aerospace & Defense 2.8%		
Boeing Co.	69,308	6,061,678
General Dynamics Corp.	36,034	3,206,666
Goodrich Corp.	10,561	745,712
Honeywell International, Inc.	66,447	4,091,142
L-3 Communications Holdings, Inc.	11,200	1,186,528
Lockheed Martin Corp.	30,993	3,262,323
Northrop Grumman Corp.	30,531	2,400,958
Precision Castparts Corp.	12,300	1,706,010
Raytheon Co.	38,696	2,348,847
Rockwell Collins, Inc.	14,731	1,060,190
United Technologies Corp.	88,100	6,743,174
		32,813,228
Air Freight & Logistics 0.9%		
C.H. Robinson Worldwide, Inc.	15,300	828,036
Expeditors International of Washington, Inc.	18,900	844,452
FedEx Corp.	27,465	2,449,054
United Parcel Service, Inc. "B"	93,258	6,595,206
		10,716,748
Airlines 0.1%		
Southwest Airlines Co.	65,595	**800,259**
Building Products 0.1%		
Masco Corp.	32,765	708,052
Trane, Inc.	15,264	712,981
		1,421,033
Commercial Services & Supplies 0.5%		
Allied Waste Industries, Inc.*	23,275	256,491
Avery Dennison Corp.	8,886	472,202
Cintas Corp.	12,042	404,852
Equifax, Inc.	11,791	428,721
Monster Worldwide, Inc.*	11,385	368,874
Pitney Bowes, Inc.	19,646	747,334
R.R. Donnelley & Sons Co.	19,629	740,798
Robert Half International, Inc.	14,400	389,376
Waste Management, Inc.	46,369	1,514,875
		5,323,523
Construction & Engineering 0.2%		
Fluor Corp.	7,825	1,140,259
Jacobs Engineering Group, Inc.*	11,400	1,089,954
		2,230,213
Electrical Equipment 0.5%		
Cooper Industries Ltd. "A"	16,128	852,849
Emerson Electric Co.	70,304	3,983,424
Rockwell Automation, Inc.	13,347	920,409
		5,756,682
Industrial Conglomerates 3.6%		
3M Co.	63,536	5,357,356
General Electric Co.	903,432	33,490,224
Textron, Inc.	22,182	1,581,577
Tyco International Ltd.	44,188	1,752,054
		42,181,211
Machinery 1.9%		
Caterpillar, Inc.	56,736	4,116,764
Cummins, Inc.	9,156	1,166,200
Danaher Corp.	21,465	1,883,339
Deere & Co.	39,424	3,671,163
Dover Corp.	17,502	806,667
Eaton Corp.	12,905	1,251,140
Illinois Tool Works, Inc. (a)	36,894	1,975,305
Ingersoll-Rand Co., Ltd. "A"	24,322	1,130,243
ITT Corp.	15,894	1,049,640
Manitowoc Co., Inc.	11,100	542,013
PACCAR, Inc.	34,001	1,852,374
Pall Corp.	10,853	437,593
Parker Hannifin Corp.	15,068	1,134,771
Terex Corp.*	9,900	649,143
		21,666,355
Road & Rail 0.8%		
Burlington Northern Santa Fe Corp.	26,638	2,217,081
CSX Corp.	37,548	1,651,361
Norfolk Southern Corp.	34,786	1,754,606
Ryder System, Inc.	4,852	228,092
Union Pacific Corp.	23,481	2,949,683
		8,800,823
Trading Companies & Distributors 0.0%		
W.W. Grainger, Inc.	6,009	**525,908**

Information Technology 16.6%

	Shares	Value ($)
Communications Equipment 2.6%		
Ciena Corp.* (a)	8,765	298,974
Cisco Systems, Inc.*	540,895	14,642,028
Corning, Inc.	139,722	3,351,931
JDS Uniphase Corp.* (a)	18,978	252,407
Juniper Networks, Inc.*	47,100	1,563,720
Motorola, Inc.	206,480	3,311,939
QUALCOMM, Inc.	148,720	5,852,132
Tellabs, Inc.*	42,116	275,439
		29,548,570

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

	Shares	Value ($)
Computers & Peripherals 4.5%		
Apple, Inc.*	78,562	15,561,561
Dell, Inc.*	201,609	4,941,437
EMC Corp.*	186,267	3,451,527
Hewlett-Packard Co.	228,927	11,556,235
International Business Machines Corp.	122,202	13,210,036
Lexmark International, Inc. "A"*	8,468	295,194
Network Appliance, Inc.*	31,784	793,329
QLogic Corp.*	13,118	186,276
SanDisk Corp.*	20,400	676,668
Sun Microsystems, Inc.*	73,745	1,337,001
Teradata Corp.*	15,651	428,994
		52,438,258
Electronic Equipment & Instruments 0.3%		
Agilent Technologies, Inc.*	34,297	1,260,072
Jabil Circuit, Inc.	16,647	254,200
Molex, Inc.	12,217	333,524
Tyco Electronics Ltd.	44,188	1,640,700
		3,488,496
Internet Software & Services 1.9%		
Akamai Technologies, Inc.*	15,100	522,460
eBay, Inc.*	101,368	3,364,404
Google, Inc. "A"*	20,653	14,281,136
VeriSign, Inc.*	21,100	793,571
Yahoo!, Inc.*	119,488	2,779,291
		21,740,862
IT Services 0.8%		
Affiliated Computer Services, Inc. "A"*	9,173	413,702
Automatic Data Processing, Inc.	47,408	2,111,078
Cognizant Technology Solutions Corp. "A"*	25,800	875,652
Computer Sciences Corp.*	15,544	768,962
Convergys Corp.*	10,872	178,953
Electronic Data Systems Corp.	45,491	943,029
Fidelity National Information Services, Inc.	15,200	632,168
Fiserv, Inc.*	14,942	829,131
Paychex, Inc.	30,911	1,119,597
Unisys Corp.*	27,480	129,980
Western Union Co.	68,612	1,665,899
		9,668,151
Office Electronics 0.1%		
Xerox Corp.*	83,088	**1,345,195**
Semiconductors & Semiconductor Equipment 2.7%		
Advanced Micro Devices, Inc.*	50,960	382,200
Altera Corp.	29,786	575,465
Analog Devices, Inc.	27,835	882,369
Applied Materials, Inc.	122,430	2,174,357
Broadcom Corp. "A"*	41,621	1,087,973
Intel Corp.	521,545	13,904,390
KLA-Tencor Corp.	16,645	801,623
Linear Technology Corp. (a)	19,814	630,680
LSI Corp.*	64,013	339,909
MEMC Electronic Materials, Inc.*	20,100	1,778,649
Microchip Technology, Inc.	19,400	609,548
Micron Technology, Inc.*	66,620	482,995
National Semiconductor Corp.	21,426	485,085
Novellus Systems, Inc.*	11,114	306,413
NVIDIA Corp.*	50,221	1,708,518
Teradyne, Inc.*	16,804	173,753
Texas Instruments, Inc.	126,879	4,237,759
Xilinx, Inc.	26,446	578,374
		31,140,060
Software 3.7%		
Adobe Systems, Inc.*	52,910	2,260,844
Autodesk, Inc.*	20,448	1,017,493
BMC Software, Inc.*	17,806	634,606
CA, Inc.	34,459	859,752
Citrix Systems, Inc.*	16,098	611,885
Compuware Corp.*	25,446	225,960
Electronic Arts, Inc.*	29,058	1,697,278
Intuit, Inc.*	30,070	950,513
Microsoft Corp.	716,571	25,509,928
Novell, Inc.*	31,036	213,217
Oracle Corp.*	353,178	7,974,759
Symantec Corp.*	79,852	1,288,811
		43,245,046
Materials 3.3%		
Chemicals 1.8%		
Air Products & Chemicals, Inc.	19,239	1,897,543
Ashland, Inc.	4,908	232,786
Dow Chemical Co.	84,361	3,325,511
E.I. du Pont de Nemours & Co.	81,712	3,602,682
Eastman Chemical Co.	7,030	429,463
Ecolab, Inc.	15,466	792,014
Hercules, Inc.	11,107	214,920
International Flavors & Fragrances, Inc.	6,543	314,915
Monsanto Co.	49,116	5,485,766
PPG Industries, Inc.	14,250	1,000,777
Praxair, Inc.	28,385	2,518,033
Rohm & Haas Co.	11,794	625,908
Sigma-Aldrich Corp.	11,640	635,544
		21,075,862
Construction Materials 0.1%		
Vulcan Materials Co. (a)	8,825	**697,969**
Containers & Packaging 0.1%		
Ball Corp.	8,836	397,620
Bemis Co., Inc.	7,872	215,535
Pactiv Corp.*	11,619	309,414
Sealed Air Corp.	14,896	344,694
		1,267,263
Metals & Mining 1.0%		
Alcoa, Inc.	78,281	2,861,170
Allegheny Technologies, Inc.	9,017	779,069
Freeport-McMoRan Copper & Gold, Inc.	33,899	3,472,613
Newmont Mining Corp.	40,032	1,954,763
Nucor Corp.	25,630	1,517,809
Titanium Metals Corp.	7,800	206,310
United States Steel Corp.	10,459	1,264,598
		12,056,332
Paper & Forest Products 0.3%		
International Paper Co.	38,172	1,236,009
MeadWestvaco Corp.	16,259	508,907
Weyerhaeuser Co.	19,198	1,415,660
		3,160,576

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

	Shares	Value ($)
Telecommunication Services 3.6%		
Diversified Telecommunication Services 3.2%		
AT&T, Inc.	541,536	22,506,236
CenturyTel, Inc.	9,919	411,242
Citizens Communications Co.	27,790	353,767
Embarq Corp.	13,598	673,509
Qwest Communications International, Inc.* (a)	143,840	1,008,318
Verizon Communications, Inc.	258,529	11,295,132
Windstream Corp.	44,259	576,252
		36,824,456
Wireless Telecommunication Services 0.4%		
American Tower Corp. "A"*	36,600	1,559,160
Sprint Nextel Corp.	252,768	3,318,844
		4,878,004
Utilities 3.6%		
Electric Utilities 2.1%		
Allegheny Energy, Inc.	14,110	897,537
American Electric Power Co., Inc.	35,916	1,672,249
Duke Energy Corp.	112,583	2,270,799
Edison International	28,867	1,540,632
Entergy Corp.	18,256	2,181,957
Exelon Corp.	60,242	4,918,157
FirstEnergy Corp.	27,054	1,957,086
FPL Group, Inc. (a)	36,184	2,452,552
Pepco Holdings, Inc.	17,300	507,409
Pinnacle West Capital Corp.	7,608	322,655
PPL Corp.	34,028	1,772,519
Progress Energy, Inc.	21,831	1,057,275
Southern Co.	67,304	2,608,030
		24,158,857
Gas Utilities 0.1%		
Nicor, Inc.	3,984	168,722
Questar Corp.	15,300	827,730
		996,452
Independent Power Producers & Energy Traders 0.3%		
AES Corp.*	59,348	1,269,454
Constellation Energy Group	16,010	1,641,505
Dynegy, Inc. "A"*	39,872	284,686
		3,195,645
Multi-Utilities 1.1%		
Ameren Corp.	17,369	941,574
CenterPoint Energy, Inc.	26,021	445,740
CMS Energy Corp.	22,772	395,777
Consolidated Edison, Inc.	26,622	1,300,485
Dominion Resources, Inc.	51,658	2,451,172
DTE Energy Co.	15,657	688,282
Integrys Energy Group, Inc.	6,800	351,492
NiSource, Inc.	24,408	461,067
PG&E Corp.	31,349	1,350,828
Public Service Enterprise Group, Inc.	22,675	2,227,591
Sempra Energy	23,387	1,447,188
TECO Energy, Inc. (a)	24,500	421,645
Xcel Energy, Inc.	34,057	768,667
		13,251,508
Total Common Stocks (Cost $893,054,106)		**1,150,184,815**

	Principal Amount ($)	Value ($)
Government & Agency Obligations 0.1%		
US Treasury Bill, 5.08%**, 1/17/2008 (b) (Cost $798,833)	800,000	**799,121**

	Shares	Value ($)
Securities Lending Collateral 1.0%		
Daily Assets Fund Institutional, 5.03% (c) (d) (Cost $11,992,775)	11,992,775	**11,992,775**
Cash Equivalents 0.5%		
Cash Management QP Trust, 4.67% (c) (Cost $6,003,760)	6,003,760	**6,003,760**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $911,849,474)†	100.9	**1,168,980,471**
Other Assets and Liabilities, Net	(0.9)	**(10,003,451)**
Net Assets	100.0	**1,158,977,020**

* *Non-income producing security.*

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

† *The cost for federal income tax purposes was $932,022,452. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $236,958,019. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $321,707,558 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $84,749,539.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $11,704,037 which is 1.0% of net assets.*

(b) *At December 31, 2007, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

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

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

REIT: Real Estate Investment Trust

At December 31, 2007, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation ($)
S&P 500 Index	3/19/2008	23	8,444,598	8,493,900	**49,302**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $893,852,939) — including $11,704,037 of securities loaned	$ 1,150,983,936
Investment in Daily Assets Fund Institutional (cost $11,992,775)*	11,992,775
Investment in Cash Management QP Trust (cost $6,003,760)	6,003,760
Total investments, at value (cost $911,849,474)	1,168,980,471
Cash	68
Dividends receivable	1,733,336
Receivable for investments sold	282,725
Interest receivable	43,348
Receivable for Portfolio shares sold	1,006,291
Other assets	58,446
Total assets	1,172,104,685

Liabilities	
Payable upon return of securities loaned	11,992,775
Payable for investments purchased	601,852
Payable for Portfolio shares redeemed	52,523
Payable for daily variation margin on open futures contracts	51,867
Accrued management fee	163,137
Other accrued expenses and payables	265,511
Total liabilities	13,127,665
Net assets, at value	**$ 1,158,977,020**

Net Assets Consist of	
Undistributed net investment income	22,718,721
Net unrealized appreciation (depreciation) on:	
Investments	257,130,997
Futures	49,302
Accumulated net realized gain (loss)	(37,582,157)
Paid-in capital	916,660,157
Net assets, at value	**$ 1,158,977,020**
Class A	
Net Asset Value, offering and redemption price per share ($1,045,858,561÷ 67,350,398 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 15.53**
Class B	
Net Asset Value, offering and redemption price per share ($64,815,382 ÷ 4,176,782 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 15.52**
Class B2	
Net Asset Value, offering and redemption price per share ($48,303,077 ÷ 3,113,678 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 15.51**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends	$ 26,200,136
Interest	101,641
Interest — Cash Management QP Trust	1,005,927
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	65,504
Total Income	27,373,208
Expenses:	
Management fee	2,641,783
Administration fee	1,366,734
Custodian fee	57,532
Distribution service fees (Class B and Class B2)	317,064
Record keeping fee (Class B2)	73,757
Services to shareholders	1,250
Professional fees	86,597
Trustees' fees and expenses	52,883
Reports to shareholders and shareholder meeting	234,596
Other	87,081
Total expenses before expense reductions	4,919,277
Expense reductions	(515,264)
Total expenses after expense reductions	4,404,013
Net investment income (loss)	**22,969,195**

Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from:	
Investments	39,847,922
In-kind redemptions	73,117,202
Futures	458,963
	113,424,087
Change in net unrealized appreciation (depreciation)	
Investments	(54,260,354)
Futures	(5,090)
	(54,265,444)
Net gain (loss)	**59,158,643**
Net increase (decrease) in net assets resulting from operations	**$ 82,127,838**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 22,969,195	$ 23,189,108
Net realized gain (loss)	113,424,087	2,943,751
Change in net unrealized appreciation (depreciation)	(54,265,444)	178,849,313
Net increase (decrease) in net assets resulting from operations	82,127,838	204,982,172
Distributions to shareholders from:		
Net investment income:		
Class A	(21,156,472)	(13,781,595)
Class B	(1,115,985)	(640,558)
Class B2	(629,996)	(485,019)
Total Distributions	(22,902,453)	(14,907,172)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	142,014,066	369,528,119
Reinvestment of distributions	21,156,472	13,781,595
Cost of shares redeemed	(285,852,359)	(245,811,474)
In-kind redemptions	(297,115,219)	—
Net increase (decrease) in net assets from Class A share transactions	(419,797,040)	137,498,240
Class B		
Proceeds from shares sold	14,114,550	21,759,460
Reinvestment of distributions	1,115,985	640,558
Cost of shares redeemed	(37,769,157)	(15,841,867)
Net increase (decrease) in net assets from Class B share transactions	(22,538,622)	6,558,151
Class B2		
Proceeds from shares sold	3,660,238	10,704,216
Reinvestment of distributions	629,996	485,019
Cost of shares redeemed	(15,637,931)	(20,239,713)
Net increase (decrease) in net assets from Class B2 share transactions	(11,347,697)	(9,050,478)
Increase (decrease) in net assets	(394,457,974)	325,080,913
Net assets at beginning of period	1,553,434,994	1,228,354,081
Net assets at end of period (including undistributed net investment income of $22,718,721 and $22,881,660, respectively)	**$ 1,158,977,020**	**$ 1,553,434,994**

Statement of Changes in Net Assets (continued)

Other Information	Years Ended December 31, 2007	2006
Class A		
Shares outstanding at beginning of period	94,305,191	84,067,247
Shares sold	9,198,622	27,355,596
Shares issued to shareholders in reinvestment of distributions	1,366,697	1,008,902
Shares redeemed	(18,652,060)	(18,126,554)
In-kind redemptions	(18,868,052)	—
Net increase (decrease) in Class A shares	(26,954,793)	10,237,944
Shares outstanding at end of period	**67,350,398**	**94,305,191**
Class B		
Shares outstanding at beginning of period	5,613,107	5,155,670
Shares sold	915,083	1,579,717
Shares issued to shareholders in reinvestment of distributions	72,046	46,858
Shares redeemed	(2,423,454)	(1,169,138)
Net increase (decrease) in Class B shares	(1,436,325)	457,437
Shares outstanding at end of period	**4,176,782**	**5,613,107**
Class B2		
Shares outstanding at beginning of period	3,841,811	4,506,034
Shares sold	240,022	788,488
Shares issued to shareholders in reinvestment of distributions	40,645	35,455
Shares redeemed	(1,008,800)	(1,488,166)
Net increase (decrease) in Class B2 shares	(728,133)	(664,223)
Shares outstanding at end of period	**3,113,678**	**3,841,811**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$14.97**	**$13.11**	**$12.73**	**$11.64**	**$ 9.20**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.27	.24	.21	.21	.15
Net realized and unrealized gain (loss)	.52	1.78	.37	1.01	2.41
Total from investment operations	.79	2.02	.58	1.22	2.56
Less distributions from:					
Net investment income	(.23)	(.16)	(.20)	(.13)	(.12)
Net asset value, end of period	**$15.53**	**$14.97**	**$13.11**	**$12.73**	**$11.64**
Total Return (%)	5.30[b]	15.52[b]	4.68	10.59[b]	28.16[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	1,046	1,412	1,102	790	627
Ratio of expenses before expense reductions and/or recoupments (%)	.33	.28	.27	.28	.30
Ratio of expenses after expense reductions and/or recoupments (%)	.30	.27	.27	.29	.30
Ratio of net investment income (loss) (%)	1.71	1.73	1.62	1.76	1.50
Portfolio turnover rate (%)	7[c]	9	15	1	1

a *Based on average shares outstanding during the period.*
b *Total return would have been lower had certain expenses not been reduced.*
c *Excludes portfolio securities delivered as a result of processing redemption in-kind transactions.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$14.96**	**$13.10**	**$12.72**	**$11.63**	**$ 9.20**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.23	.21	.17	.20	.14
Net realized and unrealized gain (loss)	.52	1.78	.38	.99	2.40
Total from investment operations	.75	1.99	.55	1.19	2.54
Less distributions from:					
Net investment income	(.19)	(.13)	(.17)	(.10)	(.11)
Net asset value, end of period	**$15.52**	**$14.96**	**$13.10**	**$12.72**	**$11.63**
Total Return (%)	5.03[b]	15.24[b]	4.42	10.32[b]	27.83
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	65	84	68	53	17
Ratio of expenses before expense reductions and/or recoupments (%)	.58	.53	.52	.53	.55
Ratio of expenses after expense reductions and/or recoupments (%)	.55	.52	.52	.54	.55
Ratio of net investment income (loss) (%)	1.46	1.48	1.37	1.71	1.29
Portfolio turnover rate (%)	7[c]	9	15	1	1

a *Based on average shares outstanding during the period.*
b *Total return would have been lower had certain expenses not been reduced.*
c *Excludes portfolio securities delivered as a result of processing redemption in-kind transactions.*

Class B2

Years Ended December 31,	2007	2006	2005[a]
Selected Per Share Data			
Net asset value, beginning of period	**$14.96**	**$13.09**	**$12.94**
Income (loss) from investment operations:			
Net investment income (loss)[b]	.21	.19	.05
Net realized and unrealized gain (loss)	.52	1.79	.10
Total from investment operations	.73	1.98	.15
Less distributions from:			
Net investment income	(.18)	(.11)	—
Net asset value, end of period	**$15.51**	**$14.96**	**$13.09**
Total Return (%)[c]	4.85	15.20	1.16**
Ratios to Average Net Assets and Supplemental Data			
Net assets, end of period ($ millions)	48	57	59
Ratio of expenses before expense reductions (%)	.72	.67	.66*
Ratio of expenses after expense reductions (%)	.65	.63	.63*
Ratio of net investment income (loss) (%)	1.36	1.37	1.34*
Portfolio turnover rate (%)	7[d]	9	15

a *For the period September 16, 2005 (commencement of operations) to December 31, 2005.*

b *Based on average shares outstanding during the period.*

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

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

* *Annualized*

** *Not annualized*

Notes to Financial Statements

A. Significant Accounting Policies

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

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

Investment income, realized and unrealized gains and losses, and certain 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 fees and record keeping fees). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The Portfolio'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 Portfolio in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading. Equity securities are valued at the most recent sale price 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.

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 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.

In September 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. As of December 31, 2007, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

Securities Lending. The 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 issuer of 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 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.

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 Portfolio 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 depending 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 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.

Federal Income Taxes. The Portfolio's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable and tax-exempt income to its shareholders. Accordingly, the Portfolio paid no federal income taxes and no federal income tax provision was required.

At December 31, 2007, DWS Equity 500 Index VIP had a net tax basis capital loss carryforward of approximately $17,360,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2012, whichever occurs first. During the year ended December 31, 2007, the Portfolio utilized $42,684,000 of its prior year capital loss carryforward.

The Portfolio has reviewed the tax positions for each of the three open tax years as of December 31, 2007 and has determined that no provision for income tax is required in the Portfolio's financial statements. Each of the Portfolio's federal tax returns for the prior three fiscal years remains subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Net investment income of the Portfolio, if any, is declared and distributed to shareholders annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the 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 in-kind redemptions, investments in futures contracts and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Portfolio may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Portfolio.

At December 31, 2007, the Portfolio's components of distributable earnings (accumulated gains) on a tax basis were as follows:

Undistributed ordinary income	$ 22,692,989
Capital loss carryforwards	$ (17,360,000)
Unrealized appreciation (depreciation) on investments	$ 236,958,019

In addition, the tax character of distributions paid to shareholders by the Portfolio is summarized as follows:

	Years Ended December 31,	
	2007	**2006**
Distributions from ordinary income	$ 22,902,453	$ 14,907,172

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

Expenses. Expenses of the Trust arising in connection with a specific portfolio are allocated to that portfolio. Other Trust expenses which cannot be directly attributed to a portfolio are apportioned among the portfolios in the Trust.

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset valuation calculations. However, for financial reporting purposes, investment security 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 as soon as the Portfolio is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis.

B. Purchases and Sales of Securities

During the year ended December 31, 2007, purchases and sales of investment securities (excluding short-term investments and in-kind redemptions) aggregated $93,652,438 and $213,532,731, respectively.

C. Related Parties

Investment Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Portfolio 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 Portfolio or delegates such responsibility to the Portfolio's subadvisor. Pursuant to the Investment Management Agreement with the Advisor, the Portfolio pays an annual management fee based on the Portfolio's average daily net assets, accrued daily and payable monthly, at the following annual rates:

First $1 billion of the Portfolio's average daily net assets	.200%
Next $1 billion of such net assets	.175%
Over $2 billion of such net assets	.150%

Northern Trust Investments, N.A. ("NTI") acts as investment sub-advisor for the Portfolio. As the Portfolio's investment sub-advisor, NTI makes the Portfolio's investment decisions. It buys and sells securities for the Portfolio and conducts the research that leads to these purchase and sale decisions. NTI is paid by the Advisor for its services.

For the period from January 1, 2007 through April 30, 2009, the Advisor contractually agreed to waive all or a portion of its management fee and reimburse or pay certain operating expenses of the Portfolio to the extent necessary to maintain operating expenses of each class (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest, proxy and organizational and offering costs) as follows:

Class A	.28%
Class B	.53%
Class B2	.63%

Accordingly, for the year ended December 31, 2007, the Advisor waived a portion of its Management fee aggregating $491,063 and the amount charged aggregated $2,150,720, which was equivalent to an annual effective rate of 0.16% of the Portfolio's average daily net assets.

In addition, the Advisor reimbursed the Portfolio $20,496 of record keeping fees for Class B2 shares for the year ended December 31, 2007.

Prior to June 1, 2006, the Advisor was able to recoup any of its waived management fees within the following three years if the Portfolio was able to make repayment without exceeding its contractual expense limits during the period of the waiver/reimbursement.

Administration Fee. Pursuant to the Administrative Services Agreement, DIMA provides most administrative services to the Portfolio. For all services provided under the Administrative Services Agreement, the Portfolio pays DIMA an annual fee ("Administration fee") of 0.10% of the Portfolio's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2007, DIMA received an Administration fee of $1,366,734, of which $99,303 is unpaid.

Distribution Service Agreement. DWS Scudder Distributors, Inc. ("DWS-SDI"), an affiliate of the Advisor, is the Portfolio's distributor. In accordance with the Distribution Plan, DWS-SDI receives 12b-1 fees of up to 0.25% of average daily net assets of Class B and B2 shares. For the year ended December 31, 2007, the Distribution Service Fees were as follows:

Distribution Service Fees	Total Aggregated	Waived	Unpaid at December 31, 2007
Class B	$ 183,309	$ 23	$ 17,623
Class B2	133,755	—	10,932
	$ 317,064	**$ 23**	**$ 28,555**

Service Provider Fees. DWS Scudder Investments Service Company ("DWS-SISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent of the Portfolio. Pursuant to a sub-transfer agency agreement among DWS-SISC and DST Systems, Inc. ("DST"), DWS-SISC has delegated certain transfer agent, dividend paying agent and shareholder service agent functions to DST. DWS-SISC compensates DST out of the shareholder servicing fee they receive from the Portfolio. For the year ended December 31, 2007, the amounts charged to the Portfolio by DWS-SISC were as follows:

Services to Shareholders	Total Aggregated	Waived	Unpaid at December 31, 2007
Class A	$ 944	$ 944	$ —
Class B	163	163	—
Class B2	143	143	—
	$ 1,250	**$ 1,250**	**$ —**

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Portfolio. For the year ended December 31, 2007, the amount charged to the Portfolio by DIMA included in the Statement of Operations under "reports to shareholders and shareholder meeting" aggregated $15,584, of which $6,004 is unpaid.

Trustees Fees and Expenses. As compensation for his or her services, each Independent Trustee receives an aggregated annual fee, plus a fee for each meeting attended (plus reimbursement for reasonable out-of-pocket expenses incurred in connection with his or her attendance at board and committee meetings) from each Fund in the Fund Complex for which he or she serves. In addition, the Chairperson of the Board and the Chairperson of each committee of the Board receives additional compensation for their services. Payment of such fees and expenses is allocated among all such Funds described above in direct proportion to their relative net assets.

Cash Management QP Trust. Pursuant to an Exemptive Order issued by the SEC, the Portfolio may invest in the Cash Management QP Trust (the "QP Trust") and other affiliated funds managed by the Manager or 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 Manager or Advisor a management fee for the affiliated funds' investments in the QP Trust.

D. Fee Reductions

The Portfolio has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Portfolio's custodian expenses. During the year ended December 31, 2007, the Portfolio's custodian fee was reduced by $2,432 for custody credits earned.

E. Line of Credit

The Portfolio and other affiliated funds (the "Participants") share in a $750 million revolving credit facility administered by JPMorgan Chase Bank N.A. 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 0.35%. The Portfolio may borrow up to a maximum of 33% of its net assets under the agreement.

F. Ownership of the Portfolio

At December 31, 2007, two participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 53% and 18%, respectively. At December 31, 2007, one participating insurance company was a beneficial owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 82%. At December 31, 2007, three participating insurance companies were beneficial owners of record of 10% or more of the outstanding Class B2 shares of the Portfolio, each owning 74%, 15% and 12%, respectively.

G. In-Kind Redemptions

In certain circumstances, the Portfolio may distribute portfolio securities rather than cash as payments for a redemption of Portfolio shares (in-kind redemption). For financial reporting purposes, the Portfolio recognizes a gain on in-kind redemptions to the extent the value of the distributed securities exceeds their costs; the Portfolio recognizes a loss if cost exceeds value. Gains and losses realized on in-kind redemptions are not recognized for tax purposes, and are reclassified from undistributed realized gain (loss) to paid-in capital. During the year ended December 31, 2007, the Portfolio realized $73,117,202 of net gain attributable to in-kind redemptions.

Report of Independent Registered Public Accounting Firm

To the Trustees of DWS Investments VIT Funds and the Shareholders of DWS Equity 500 Index VIP:

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, 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 DWS Equity 500 Index VIP (the "Portfolio") at December 31, 2007, and the results of its operations for the year 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 three years ended December 31, 2007, 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, 2007 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion. The financial highlights of the Portfolio for each of the periods ended on or prior to December 31, 2004 were audited by another Independent Registered Public Accounting Firm whose report dated February 8, 2005 expressed an unqualified opinion on those statements.

Boston, Massachusetts
February 13, 2008

PricewaterhouseCoopers LLP

Tax Information

(Unaudited)

For corporate shareholders, 100% of the income dividends paid during the Portfolio's fiscal year ended December 31, 2007 qualified as a dividend received deduction.

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) 778-1482.

Proxy Voting

A description of the Portfolio's policies and procedures for voting proxies for portfolio securities and information about how the Portfolio voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — www.dws-scudder.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — www.sec.gov. To obtain a written copy of the Portfolio's policies and procedures without charge, upon request, call us toll free at (800) 778-1482.

Investment Management Agreement Approval

The Fund's Trustees approved the continuation of the Fund's current investment management agreement with DIMA and sub-advisory agreement between DIMA and Northern Trust Investments, N.A. (NTI) in September 2007.

In terms of the process that the Trustees followed prior to approving the agreements, shareholders should know that:

- At the present time, all but one of your Fund's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Fund's investment management agreement, the Trustees also review the terms of the Fund's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2007 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Fund's arrangements, that committee recommended that the Board vote to approve the continuation of the Fund's investment management agreement and sub-advisory agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants, including the Fund's independent fee consultant, in the course of their 2007 review of the Fund's contractual arrangements. In particular, the Trustees considered the report prepared by the independent fee consultant in connection with their deliberations.
- The sub-advisory fee paid to NTI is paid by DIMA out of its fee and not directly by the Fund.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Fund's Trustees consider these and many other factors, including the quality and integrity of DIMA's and NTI's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Fund's current investment management agreement and sub-advisory agreement, the Board considered all factors that it believes relevant to the interests of Fund shareholders, including:

- **The investment management fee schedule for the Fund, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the contractual fee rates paid by the Fund were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2006). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Fund represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Fund.
- **The extent to which economies of scale would be realized as the Fund grows.** In this regard, the Board noted that the Fund's investment management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between Fund shareholders and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

- **The total operating expenses of the Fund.** In this regard, the Board noted that the total (net) operating expenses of the Fund (Class A shares) are expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2006, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

- **The investment performance of the Fund and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that for the one-, three- and five-year periods ended December 31, 2006, the Fund's performance (Class A shares) was in the 1st quartile, 1st quartile and 2nd quartile, respectively, of the applicable Lipper universe. The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

- **The nature, extent and quality of the advisory services provided by DIMA and NTI.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Fund), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement and the sub-advisory agreement, including the scope of services provided under the agreements. In this regard, the Board concluded that the quality and range of services provided by DIMA and NTI have benefited and should continue to benefit the Fund and its shareholders.

- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Fund.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2006 from providing investment management services to the Fund (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Fund. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Fund's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Fund. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

- **The practices of DIMA and NTI regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Fund.** The Board considered that a portion of the Fund's brokerage may be allocated to affiliates of DIMA or NTI, subject to compliance with applicable SEC rules. The Board also considered that, subject to ongoing review by the Board, a limited portion of the Fund's brokerage may be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Fund's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Fund against any costs and liabilities related to lawsuits or regulatory actions arising from allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high quality services to the Fund and its shareholders. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Fund shareholders and Deutsche Bank's management of one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Fund's current investment management agreement and the sub-advisory agreement, and concluded that the continuation of such agreements was in the best interests of the Fund's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreements.

Summary of Management Fee Evaluation by Independent Fee Consultant

October 26, 2007

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Scudder Funds. My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2007, including my qualifications, the evaluation process for each of the DWS Scudder Funds, consideration of certain complex-level factors, and my conclusions.

Qualifications

For more than 30 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past several years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University; and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds, serve on the board of directors of a private market research company, and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Scudder Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 136 Fund portfolios in the DWS Scudder Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper, Strategic Insight, and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.

The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Scudder Fund. These similar products included the other DWS Scudder Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Scudder Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Scudder funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

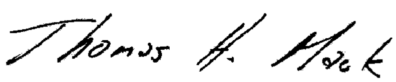
I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Scudder Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Scudder Funds are reasonable.



Thomas H. Mack

Trustees and Officers

The following table presents certain information regarding the Board Members and Officers of the Trust as of December 31, 2007. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member 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 Independent Board Member is c/o Dawn-Marie Driscoll, PO Box 100176, Cape Coral, FL 33904. The term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

Independent Board Members

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Dawn-Marie Driscoll (1946) Chairperson since 2006 Board Member since 2006	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: Trustee of eight open-end mutual funds managed by Sun Capital Advisers, Inc. (since 2007); Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley College; Trustee, Southwest Florida Community Foundation (charitable organization). Former Directorships: Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	76
Henry P. Becton, Jr. (1943) Board Member since 2006	Vice Chair, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Becton Dickinson and Company[1] (medical technology company); Belo Corporation[1] (media company); Boston Museum of Science; Public Radio International. Former Directorships: American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	76
Keith R. Fox (1954) Board Member since 2006	Managing General Partner, Exeter Capital Partners (a series of private equity funds). Directorships: Progressive Holding Corporation (kitchen goods importer and distributor); Natural History, Inc. (magazine publisher); Box Top Media Inc. (advertising); The Kennel Shop (retailer)	76
Kenneth C. Froewiss (1945) Board Member since 2006	Clinical Professor of Finance, NYU Stern School of Business (1997–present); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	76
Martin J. Gruber (1937) Board Member since 1999	Nomura Professor of Finance, Leonard N. Stern School of Business, New York University (since September 1965); Director, Japan Equity Fund, Inc. (since January 1992), Thai Capital Fund, Inc. (since January 2000), Singapore Fund, Inc. (since January 2000), National Bureau of Economic Research (since January 2006). Formerly, Trustee, TIAA (pension funds) (January 1996–January 2000); Trustee, CREF and CREF Mutual Funds (January 2000–March 2005); Chairman, CREF and CREF Mutual Funds (February 2004–March 2005); and Director, S.G. Cowen Mutual Funds (January 1985–January 2001)	76
Richard J. Herring (1946) Board Member since 1999	Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center (since July 2000); Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007). Formerly, Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	76
Graham E. Jones (1933) Board Member since 2002	Senior Vice President, BGK Realty, Inc. (commercial real estate) (since 1995). Formerly, Trustee of various investment companies managed by Sun Capital Advisors, Inc. (1998–2005), Morgan Stanley Asset Management (1985–2001) and Weiss, Peck and Greer (1985–2005)	76
Rebecca W. Rimel (1951) Board Member since 2002	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to present); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001 to present). Formerly, Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Director, Viasys Health Care[1] (January 2007–June 2007)	76
William N. Searcy, Jr. (1946) Board Member since 2002	Private investor since October 2003; Trustee of eight open-end mutual funds managed by Sun Capital Advisers, Inc. (since October 1998). Formerly, Pension & Savings Trust Officer, Sprint Corporation[1] (telecommunications) (November 1989–September 2003)	76

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Jean Gleason Stromberg (1943) Board Member since 2006	Retired. Formerly, Consultant (1997–2001); Director, US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; Service Source, Inc. Former Directorships: Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	76
Carl W. Vogt (1936) Board Member since 2006	Retired Senior Partner, Fulbright & Jaworski, L.L.P. (law firm); formerly, President (interim) of Williams College (1999–2000); formerly, President of 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). Former Directorships: ISI Family of Funds (registered investment companies, four funds overseen); National Railroad Passenger Corporation (Amtrak); Waste Management, Inc. (solid waste disposal). Formerly, Chairman and Member, National Transportation Safety Board	74

Interested Board Member

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Axel Schwarzer[2] (1958) Board Member since 2006	Managing Director[4], Deutsche Asset Management; Head of Deutsche Asset Management Americas; CEO of DWS Scudder; formerly, board member of DWS Investments, Germany (1999–2005); formerly, Head of Sales and Product Management for the Retail and Private Banking Division of Deutsche Bank in Germany (1997–1999); formerly, various strategic and operational positions for Deutsche Bank Germany Retail and Private Banking Division in the field of investment funds, tax driven instruments and asset management for corporates (1989–1996)	82

Officers[3]

Name, Year of Birth, Position with the Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Michael G. Clark[5] (1965) President, 2006–present	Managing Director[4], Deutsche Asset Management (2006–present); President of DWS family of funds; Director, ICI Mutual Insurance Company (since October 2007); formerly, Director of Fund Board Relations (2004–2006) and Director of Product Development (2000–2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999–2000)
John Millette[6] (1962) Vice President and Secretary, 2003–present	Director[4], Deutsche Asset Management
Paul H. Schubert[5] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[4], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Patricia DeFilippis[5] (1963) Assistant Secretary, 2005–present	Vice President, Deutsche Asset Management (since June 2005); formerly, Counsel, New York Life Investment Management LLC (2003–2005); legal associate, Lord, Abbett & Co. LLC (1998–2003)
Elisa D. Metzger[5] (1962) Assistant Secretary 2005–present	Director[4], Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999–2005)
Caroline Pearson[6] (1962) Assistant Secretary, 2002–present	Managing Director[4], Deutsche Asset Management
Paul Antosca[6] (1957) Assistant Treasurer, 2007–present	Director[4], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[6] (1967) Assistant Treasurer, 2007–present	Director[4], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Kathleen Sullivan D'Eramo[6] (1957) Assistant Treasurer, 2003–present	Director[4], Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Diane Kenneally[6] (1966) Assistant Treasurer, 2007–present	Director[4], Deutsche Asset Management
Jason Vazquez[4] (1972) Anti-Money Laundering Compliance Officer, 2007–present	Vice President, Deutsche Asset Management (since 2006); formerly, AML Operations Manager for Bear Stearns (2004–2006), Supervising Compliance Principal and Operations Manager for AXA Financial (1999–2004)
Robert Kloby[5] (1962) Chief Compliance Officer, 2006–present	Managing Director[4], Deutsche Asset Management (2004–present); formerly, Chief Compliance Officer/Chief Risk Officer, Robeco USA (2000–2004); Vice President, The Prudential Insurance Company of America (1988–2000); E.F. Hutton and Company (1984–1988)
J. Christopher Jackson[5] (1951) Chief Legal Officer, 2006–present	Director[4], Deutsche Asset Management (2006–present); formerly, Director, Senior Vice President, General Counsel and Assistant Secretary, Hansberger Global Investors, Inc. (1996–2006); Director, National Society of Compliance Professionals (2002–2005) (2006–2009)

1 *A publicly held company with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.*

2 *The mailing address of Axel Schwarzer is c/o Deutsche Investment Management Americas Inc., 345 Park Avenue, New York, New York 10154. Mr. Schwarzer is an interested Board Member by virtue of his positions with Deutsche Asset Management.*

3 *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.*

4 *Executive title, not a board directorship.*

5 *Address: 345 Park Avenue, New York, New York 10154.*

6 *Address: Two International Place, Boston, MA 02110.*

The fund's Statement of Additional Information ("SAI") includes additional information about the Board Members. 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: (800) 621-1048.

Deutsche Investment Management Americas Inc. ("DIMA"), an indirect, wholly owned subsidiary of Deutsche Bank AG, is the Portfolio's Advisor.

DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS 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.

This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

DWS Scudder Distributors, Inc.
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Chicago, IL 60606
(800) 778-1482

vit-equ500-2 (53316 2/08)

DWS SCUDDER
Deutsche Bank Group

December 31, 2007

ANNUAL REPORT

DWS VARIABLE SERIES I

DWS Bond VIP

DWS Growth & Income VIP

DWS Capital Growth VIP

DWS Global Opportunities VIP

DWS International VIP

DWS Health Care VIP

ONE GLOBAL FORCE. ONE FOCUS. YOU.

DWS SCUDDER

Deutsche Bank Group

Contents

Performance Summary, Information About Your Portfolio's Expenses, Management Summary, Portfolio Summary, Investment Portfolio, Financial Statements and Financial Highlights for:

DWS Bond VIP

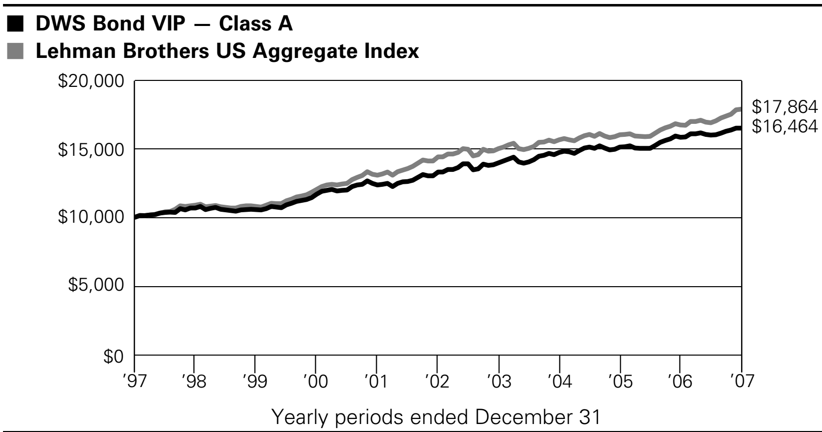
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 0.66% and 1.04% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. 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. In the current market environment, mortgage-backed securities are experiencing increased volatility. Please see this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment



The Lehman Brothers US Aggregate Index is an unmanaged, market value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Bond VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,418	$11,193	$12,392	$16,464
	Average annual total return	4.18%	3.83%	4.38%	5.11%
Lehman Brothers US Aggregate Index	Growth of $10,000	$10,697	$11,431	$12,417	$17,864
	Average annual total return	6.97%	4.56%	4.42%	5.97%

DWS Bond VIP		1-Year	Life of Class*
Class B	Growth of $10,000	$10,377	$10,967
	Average annual total return	3.77%	3.53%
Lehman Brothers US Aggregate Index	Growth of $10,000	$10,697	$11,333
	Average annual total return	6.97%	4.80%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on May 2, 2005. Index returns began on April 30, 2005.*

Information About Your Portfolio's Expenses

DWS Bond VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,031.00	$1,029.60
Expenses Paid per $1,000*	$ 2.97	$ 4.86
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,022.28	$1,020.42
Expenses Paid per $1,000*	$ 2.96	$ 4.84

* *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**
DWS Variable Series I — DWS Bond VIP	0.58%	0.95%

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

These tables do not 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.

DWS Bond VIP

The last half of the year was the most eventful and did the most to determine fixed-income investor returns. In particular, the summer saw extreme volatility occasioned by the subprime mortgage crisis. As investors sought to protect against risks that were difficult to assess, liquidity disappeared in the broader fixed-income markets. Ultimately, this risk aversion caused a period of very high financial market volatility as well as a flight to quality, manifested by increased interest in "risk-free" US Treasury securities. Between September and November, the US Federal Reserve Board (the Fed) lowered the benchmark short-term rate by 100 basis points (one percentage point) to 4.25%.

During the 12-month period ended December 31, 2007, the Portfolio provided a total return of 4.18% (Class A shares, unadjusted for contract charges) compared with the 6.97% return of its benchmark, the Lehman Brothers US Aggregate Index.

An emphasis on fixed-income sectors that trade at a yield spread to Treasuries detracted from relative performance as investors sought refuge in the government backing of Treasuries during the second half of the year.[1] We had increased exposure to commercial mortgage-backed securities in the middle of 2007 as their yield spreads versus Treasuries tripled. However, these spreads tripled yet again as Treasuries continued to outperform. Within the residential mortgage sector our allocation to prime hybrid adjustable-rate mortgages (ARMs) suffered from the same liquidity drain as all short-term spread sectors.[2] While the Portfolio was underweight corporate bonds, within that sector it was overweight financials, which underperformed duration-equivalent Treasuries by a wide margin.[3] While the Portfolio's high-yield corporate and emerging-market holdings underperformed, relatively defensive positioning within the high-yield sector helped to limit the downside impact. Long positions in undervalued, fundamentally sound currencies and short positions in higher-yielding currencies added to performance.

The following members of the management team handle the day-to-day operations of the high-yield and core bond, active fixed-income and high-yield portions of the Portfolio.

Portfolio Managers, Aberdeen Asset Management, Inc., Subadvisor to the Portfolio

Gary W. Bartlett, CFA	Thomas J. Flaherty	Daniel R. Taylor, CFA	William T. Lissenden
Warren S. Davis, III	J. Christopher Gagnier	Timothy C. Vile, CFA	

The following portfolio managers are responsible for the day-to-day management of the foreign securities, foreign currencies and related investments for the Portfolio.

Portfolio Managers, Aberdeen Asset Management Investment Services Limited, Sub-subadvisor to the Portfolio

Brett Diment	Anthony Fletcher	Stephen Ilott	Matthew Cobon
Annette Fraser	Nik Hart	Ian Winship	

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. 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. Derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on an underlying Portfolio's derivative position. Investing in securities of emerging markets 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. In the current market environment, mortgage-backed securities are experiencing increased volatility. Please see this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Lehman Brothers US Aggregate Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *The yield spread is the difference between the yield of a security and the yield of a comparable duration Treasury. A large spread indicates that investors require yields substantially above those of Treasuries in order to invest in lower-quality bonds. This is generally indicative of a higher-risk environment. A smaller spread generally indicates a more positive environment, since investors are less concerned about risk and therefore willing to accept lower yields. A drop in the yield spread is a positive.*

2 *A prime hybrid ARM loan is one made to a borrower with a positive credit history and features an interest rate that is fixed for an initial period of time, then floats thereafter. Spread sectors are non-Treasury bond sectors of the fixed-income market.*

3 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Bond VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Commercial and Non-Agency Mortgage-Backed Securities	35%	28%
Corporate Bonds	24%	26%
Government & Agency Obligations	17%	11%
Mortgage Backed Securities Pass-Throughs	15%	13%
Collateralized Mortgage Obligations	4%	11%
Cash Equivalents	2%	3%
Municipal Bonds and Notes	2%	5%
Asset Backed	1%	3%
	100%	100%

Quality (Excludes Securities Lending Collateral)	**12/31/07**	**12/31/06**
US Government & Treasury Obligations	36%	34%
AAA*	35%	36%
AA	3%	—
A	7%	6%
BBB	13%	14%
BB or Below	6%	10%
	100%	100%

Effective Maturity (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/07**	**12/31/06**
Under 1 year	3%	9%
1–4.99 years	45%	35%
5–9.99 years	41%	39%
10–14.99 years	1%	7%
15+ years	10%	10%
	100%	100%

* *Category includes cash equivalents*

Weighted average effective maturity: 6.99 and 7.95 years, respectively.

Asset allocation, 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 Portfolio's credit quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 7. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day 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, 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.

DWS Bond VIP

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 23.9%		
Consumer Discretionary 1.2%		
AutoNation, Inc., 7.0%, 4/15/2014	133,000	126,017
Avis Budget Car Rental LLC, 7.625%, 5/15/2014 (b)	130,000	124,150
Caesars Entertainment, Inc.:		
7.875%, 3/15/2010	248,000	233,120
8.125%, 5/15/2011 (b)	168,000	156,240
Comcast Cable Holdings LLC, 10.125%, 4/15/2022	168,000	222,757
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015	75,000	74,250
INVISTA, 144A, 9.25%, 5/1/2012	334,000	345,690
Quebecor Media, Inc., 144A, 7.75%, 3/15/2016	31,000	29,760
Station Casinos, Inc., 6.5%, 2/1/2014 (b)	274,000	205,500
TCI Communications, Inc., 8.75%, 8/1/2015	511,000	594,398
Valassis Communications, Inc., 8.25%, 3/1/2015 (b)	127,000	113,189
Viacom, Inc., 5.75%, 4/30/2011	458,000	463,761
		2,688,832
Consumer Staples 1.1%		
Constellation Brands, Inc.:		
7.25%, 9/1/2016 (b)	139,000	130,313
144A, 7.25%, 5/15/2017	165,000	152,625
8.375%, 12/15/2014	66,000	66,165
CVS Caremark Corp.:		
6.25%, 6/1/2027	332,000	332,718
6.302%, 6/1/2037	1,050,000	1,014,869
Dean Foods Co., 7.0%, 6/1/2016	205,000	182,450
Tesco PLC, 144A, 6.15%, 11/15/2037	600,000	586,163
		2,465,303
Energy 1.5%		
Allis-Chalmers Energy, Inc., 8.5%, 3/1/2017	165,000	157,575
Alpha Natural Resources LLC, 10.0%, 6/1/2012	75,000	79,313
Basic Energy Services, Inc., 7.125%, 4/15/2016 (b)	191,000	179,540
Canadian Natural Resources Ltd., 6.5%, 2/15/2037	180,000	180,405
Dynegy Holdings, Inc., 7.5%, 6/1/2015	160,000	149,600
Enbridge Energy Partners LP, 8.05%, 10/1/2037	61,000	60,246
Enterprise Products Operating LP, 8.375%, 8/1/2066	367,000	375,750
Forest Oil Corp., 144A, 7.25%, 6/15/2019	64,000	64,320
Helix Energy Solutions Group, Inc., 144A, 9.5%, 1/15/2016 (b)	48,000	48,840
Petroleos de Venezuela SA, 5.375%, 4/12/2027	310,000	187,860
Southern Union Co., 7.2%, 11/1/2066	190,000	186,880
Tesoro Corp., 6.625%, 11/1/2015	296,000	293,040
TransCanada PipeLines Ltd., 6.35%, 5/15/2067	684,000	641,099
Valero Energy Corp., 6.625%, 6/15/2037	560,000	563,961
Williams Partners LP, 7.25%, 2/1/2017	240,000	247,200
		3,415,629
Financials 11.6%		
AES El Salvador Trust, 144A, 6.75%, 2/1/2016	475,000	470,962
American Express Centurion Bank, 5.55%, 10/17/2012	975,000	992,121
American International Group, Inc., 6.25%, 3/15/2037	900,000	804,977
Arch Western Finance, 6.75%, 7/1/2013	129,000	125,130
Axa, 144A, 6.379%, 12/14/2049	500,000	430,901
Banco Mercantil del Norte SA, Series A, 144A, 6.862%, 10/13/2021	362,000	356,172
Banque Centrale de Tunisie, 8.25%, 9/19/2027	80,000	99,256
Bear Stearns Companies, Inc., 6.4%, 10/2/2017	430,000	415,449
Catlin Insurance Co., Ltd., 144A, 7.249%, 12/31/2049	208,000	190,175
ComEd Financing III, 6.35%, 3/15/2033	238,000	186,939
Corp. Andina de Fomento:		
5.75%, 1/12/2017	315,000	311,855
6.875%, 3/15/2012	115,000	122,708
Discover Financial Services, 144A, 5.663%*, 6/11/2010	550,000	523,457
EDP Finance BV, 144A, 5.375%, 11/2/2012	865,000	865,876
Erac USA Finance Co.:		
144A, 5.8%, 10/15/2012	340,000	337,304
144A, 7.0%, 10/15/2037	950,000	862,818
144A, 8.0%, 1/15/2011	330,000	353,088
ESI Tractebel Acquisition Corp., Series B, 7.99%, 12/30/2011 (b)	114,000	115,183
Farmers Exchange Capital, 144A, 7.2%, 7/15/2048	385,000	377,024
Ford Motor Credit Co., LLC:		
7.8%, 6/1/2012	100,000	87,666
7.993%*, 1/13/2012	109,000	91,556
FPL Group Capital, Inc.:		
6.65%, 6/15/2067	360,000	346,720
Series D, 7.3%, 9/1/2067	63,000	64,373
General Electric Capital Corp., 5.0%, 4/10/2012	654,000	662,055
Glen Meadow Pass-Through Trust, 144A, 6.505%, 2/12/2067	605,000	575,276
GMAC LLC:		
6.625%, 5/15/2012	399,000	331,695
8.0%, 11/1/2031	45,000	37,749
Goldman Sachs Capital II, 5.793%, 12/29/2049	1,720,000	1,531,359
ICICI Bank Ltd., 144A, 5.75%, 1/12/2012	555,000	533,857
JPMorgan Chase Capital XXII, Series V, 6.45%, 2/2/2037 (b)	66,000	58,752
Lincoln National Corp., 6.3%, 10/9/2037	340,000	330,619

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

		Principal Amount ($)(a)	Value ($)
Mangrove Bay Pass-Through Trust, 144A, 6.102%, 7/15/2033		540,000	484,871
Merrill Lynch & Co., Inc., 6.22%, 9/15/2026		320,000	294,647
MUFG Capital Finance 1 Ltd., 6.346%, 7/29/2049		945,000	895,042
NLV Financial Corp., 144A, 6.5%, 3/15/2035		734,000	676,880
Nuveen Investments, Inc., 144A, 10.5%, 11/15/2015		106,000	105,603
Oil Insurance Ltd., 144A, 7.558%, 12/29/2049		1,505,000	1,533,369
Red Arrow International Leasing, "A", 8.375%, 6/30/2012	RUB	3,538,403	143,836
Royal Bank of Scotland Group PLC, 7.64%, 3/31/2049		1,800,000	1,850,567
Santander Perpetual SA Unipersonal, 144A, 6.671%, 10/29/2049		500,000	501,344
SMFG Preferred Capital, 144A, 6.078%, 1/29/2049		1,100,000	1,013,342
SPI Electricity & Gas Australia Holdings Property Ltd., 144A, 6.15%, 11/15/2013		425,000	433,664
Standard Chartered Bank, 144A, 6.4%, 9/26/2017		345,000	350,345
The Travelers Companies, Inc., 6.25%, 3/15/2037		135,000	126,601
TNK-BP Finance SA:			
144A, 7.5%, 3/13/2013		445,000	443,887
144A, 7.875%, 3/13/2018 (b)		265,000	261,688
UDR, Inc., Series E, (REIT), 3.9%, 3/15/2010		245,000	238,399
USB Capital IX, 6.189%, 4/15/2049		140,000	126,702
Wachovia Capital Trust III, 5.8%, 3/15/2042		1,710,000	1,527,970
Washington Mutual Preferred Funding III, 144A, 6.895%, 12/31/2049		600,000	354,000
Wells Fargo & Co., 5.25%, 10/23/2012 (b)		690,000	701,476
White Mountains RE Group, Ltd., 144A, 6.375%, 3/20/2017		245,000	237,374
Woori Bank, 144A, 6.208%, 5/2/2037		470,000	407,998
XL Capital Ltd., Series E, 6.5%, 12/31/2049		966,000	844,633
Xstrata Finance Canada Ltd., 144A, 6.9%, 11/15/2037		585,000	581,854
			26,729,164
Health Care 0.2%			
Advanced Medical Optics, Inc., 7.5%, 5/1/2017		70,000	64,400
Community Health Systems, Inc., 8.875%, 7/15/2015 (b)		164,000	167,075
Quest Diagnostics, Inc., 6.95%, 7/1/2037		260,000	274,914
			506,389
Industrials 1.1%			
America West Airlines, Inc., Series 99-1, 7.93%, 1/2/2019		211,466	219,661
Arizona Public Service Co., 5.625%, 5/15/2033		550,000	480,580
Grant Prideco, Inc., Series B, 6.125%, 8/15/2015		161,000	168,245
Iron Mountain, Inc., 8.625%, 4/1/2013		70,000	70,875
Kansas City Southern de Mexico SA de CV, 9.375%, 5/1/2012		460,000	481,850
Northwest Pipelines Corp., 5.95%, 4/15/2017		450,000	447,750
R.H. Donnelley Corp., 144A, 8.875%, 10/15/2017		92,000	85,100
SemGroup LP, 144A, 8.75%, 11/15/2015		87,000	82,650
Terex Corp., 8.0%, 11/15/2017 (b)		92,000	93,150
TransDigm, Inc., 7.75%, 7/15/2014		22,000	22,330
United States Steel Corp., 5.65%, 6/1/2013		441,000	427,185
			2,579,376
Information Technology 0.5%			
Broadridge Financial Solutions, Inc., 6.125%, 6/1/2017		494,000	488,211
Tyco Electronics Group SA, 144A, 6.0%, 10/1/2012		695,000	712,201
			1,200,412
Materials 1.0%			
Celulosa Arauco y Constitucion SA:			
5.125%, 7/9/2013		274,000	267,845
5.625%, 4/20/2015		385,000	376,000
Domtar Corp., 5.375%, 12/1/2013		190,000	171,475
Freeport-McMoRan Copper & Gold, Inc., 8.375%, 4/1/2017		231,000	247,748
Georgia-Pacific Corp., 8.125%, 5/15/2011		351,000	356,265
Huntsman International LLC, 7.375%, 1/1/2015 (b)		104,000	109,200
Momentive Performance Materials, Inc., 144A, 9.75%, 12/1/2014		230,000	211,600
Pliant Corp., 11.625%, 6/15/2009 (PIK)		7	7
Sappi Papier Holding AG, 144A, 6.75%, 6/15/2012		85,000	83,438
Smurfit-Stone Container Enterprises, Inc., 8.0%, 3/15/2017 (b)		138,000	133,343
Steel Dynamics, Inc., 144A, 7.375%, 11/1/2012		173,000	173,865
The Mosaic Co., 144A, 7.625%, 12/1/2014		157,000	167,990
Westlake Chemical Corp., 6.625%, 1/15/2016		37,000	34,965
			2,333,741
Telecommunication Services 1.3%			
AT&T, Inc., 6.3%, 1/15/2038		500,000	507,996
British Telecommunications PLC, 5.15%, 1/15/2013		600,000	598,702
Citizens Communications Co., 9.0%, 8/15/2031 (b)		88,000	87,780
Nextel Communications, Inc., Series D, 7.375%, 8/1/2015		172,000	169,354
Nordic Telephone Co. Holdings, 144A, 10.107%*, 5/1/2016	EUR	155,000	230,017
Qwest Corp.:			
7.5%, 10/1/2014		265,000	268,975
7.625%, 6/15/2015		309,000	314,408
Telecom Italia Capital, 6.2%, 7/18/2011		175,000	179,852

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

	Principal Amount ($)(a)	Value ($)
US Unwired, Inc., Series B, 10.0%, 6/15/2012	480,000	508,883
		2,865,967
Utilities 4.4%		
AES Corp.:		
144A, 8.0%, 10/15/2017 (b)	80,000	81,800
144A, 8.75%, 5/15/2013	44,000	45,925
9.5%, 6/1/2009	99,000	102,465
Allegheny Energy Supply Co., LLC, 144A, 8.25%, 4/15/2012	365,000	389,637
Baltimore Gas & Electric Co., 6.35%, 10/1/2036	260,000	257,863
CMS Energy Corp., 8.5%, 4/15/2011	35,000	37,702
Commonwealth Edison Co.:		
Series 98, 6.15%, 3/15/2012	550,000	569,446
6.95%, 7/15/2018	310,000	313,487
Constellation Energy Group, 7.6%, 4/1/2032	205,000	230,617
Dominion Resources, Inc.:		
Series 06-B, 6.3%, 9/30/2066	330,000	320,903
7.5%, 6/30/2066	935,000	924,401
Edison Mission Energy:		
7.0%, 5/15/2017	57,000	56,002
7.5%, 6/15/2013 (b)	208,000	213,200
Energy East Corp., 6.75%, 7/15/2036	545,000	551,072
Energy Future Holdings Corp., 7.48%, 1/1/2017	387,152	351,209
Entergy Mississippi, Inc., 5.92%, 2/1/2016	225,000	224,183
Exelon Generation Co., LLC:		
5.35%, 1/15/2014	295,000	287,093
6.2%, 10/1/2017	390,000	387,593
FPL Energy National Wind, 144A, 5.608%, 3/10/2024	494,999	495,143
Integrys Energy Group, Inc., 6.11%, 12/1/2066	580,000	534,111
Intergen NV, 144A, 9.0%, 6/30/2017	150,000	157,875
Mirant Mid Atlantic LLC, Series A, 8.625%, 6/30/2012	115,810	122,180
NRG Energy, Inc.:		
7.375%, 2/1/2016	145,000	141,375
7.375%, 1/15/2017	258,000	251,550
Pedernales Electric Cooperative, Series 2002-A, 144A, 6.202%, 11/15/2032	315,000	318,364
PPL Capital Funding, Inc., Series A, 6.7%, 3/30/2067	830,000	763,681
PSE&G Energy Holdings LLC, 10.0%, 10/1/2009 (b)	105,000	110,671
Regency Energy Partners LP, 8.375%, 12/15/2013	199,000	204,970
Reliant Energy, Inc., 6.75%, 12/15/2014	177,000	177,442
Sierra Pacific Power Co., Series P, 6.75%, 7/1/2037 (b)	550,000	568,532
Wisconsin Energy Corp., Series A, 6.25%, 5/15/2067	955,000	885,649
		10,076,141
Total Corporate Bonds (Cost $56,892,430)		**54,860,954**

	Principal Amount ($)(a)	Value ($)
Asset Backed 0.5%		
Automobile Receivables 0.0%		
Drive Auto Receivables Trust, "A2", Series 2005-2, 144A, 4.12%, 1/15/2010	40,436	**40,426**
Home Equity Loans 0.5%		
Chase Funding Loan Acquisition Trust, "IA5", Series 2001-C2, 6.468%, 2/25/2013	748,538	747,219
Soundview Home Equity Loan Trust, "A2", Series 2005-CTX1, 5.195%, 11/25/2035	315,715	314,253
		1,061,472
Total Asset Backed (Cost $1,102,578)		**1,101,898**
Mortgage-Backed Securities Pass-Throughs 14.8%		
Federal Home Loan Mortgage Corp.:		
5.5%, with various maturities from 10/1/2023 until 8/1/2024	811,248	814,828
6.5%, 3/1/2026	1,542,671	1,620,177
Federal National Mortgage Association:		
4.5%, with various maturities from 5/1/2019 until 6/1/2034	5,965,348	5,846,628
5.0%, with various maturities from 7/1/2033 until 5/1/2034	4,770,938	4,662,908
5.5%, with various maturities from 1/1/2025 until 7/1/2037	12,629,598	12,619,385
6.0%, with various maturities from 4/1/2024 until 3/1/2025	1,522,863	1,551,178
6.31%, 6/1/2008	1,700,000	1,701,324
6.5%, with various maturities from 3/1/2017 until 4/1/2037	4,994,264	5,135,354
8.0%, 9/1/2015	34,924	37,449
Total Mortgage Backed Securities Pass-Throughs (Cost $33,529,770)		**33,989,231**
Commercial and Non-Agency Mortgage-Backed Securities 35.3%		
Adjustable Rate Mortgage Trust, "3A31", Series 2005-10, 5.416%*, 1/25/2036	820,000	781,030
American Home Mortgage Investment Trust, "5A3", Series 2005-2, 5.077%, 9/25/2035	1,050,000	1,010,832
Banc of America Commercial Mortgage, Inc., "AM", Series 2007-4, 5.812%, 2/10/2051	305,000	308,086
Banc of America Mortgage Securities, Inc., "1A20", Series 2005-3, 5.5%, 4/25/2035	1,095,000	1,098,740
Bear Stearns Adjustable Rate Mortgage Trust:		
"A1", Series 2006-1, 4.625%*, 2/25/2036	2,560,877	2,522,324
"2A1", Series 2006-4, 5.802%*, 10/25/2036	748,382	753,697
"3A1", Series 2007-5, 6.0%*, 8/25/2047	1,694,318	1,673,106

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

	Principal Amount ($)(a)	Value ($)
"22A1", Series 2007-4, 6.007%*, 6/25/2047	1,693,452	1,670,413
Bear Stearns Commercial Mortgage Securities:		
"A2", Series 2007-PW16, 5.661%*, 6/11/2040	1,650,000	1,679,992
"AAB", Series 2007-PW16, 5.713%*, 6/11/2040	1,200,000	1,228,397
Chase Mortgage Finance Corp., "3A1", Series 2005-A1, 5.281%*, 12/25/2035	1,319,485	1,299,343
Citicorp Mortgage Securities, Inc., "3A1", Series 2004-1, 4.75%, 1/25/2034	1,643,061	1,617,736
Citigroup Mortgage Loan Trust, Inc.:		
"1A2", Series 2006-AR2, 5.532%*, 3/25/2036	1,118,658	1,124,370
"2A1A", Series 2007-AR8, 5.925%*, 7/25/2037	747,878	750,386
"1CB2", Series 2004-NCM2, 6.75%, 8/25/2034	656,588	674,850
CitiMortgage Alternative Loan Trust, "A1", Series 2006-A2, 6.0%, 5/25/2036	1,118,477	1,120,110
Countrywide Alternative Loan Trust:		
"1A1", Series 2004-2CB, 4.25%, 3/25/2034	367,658	361,339
"A1", Series 2004-1T1, 5.0%, 2/25/2034	390,361	383,896
"A2", Series 2002-18, 5.25%, 2/25/2033	707,190	705,787
"A2", Series 2003-21T1, 5.25%, 12/25/2033	580,187	579,405
"A2", Series 2004-1T1, 5.5%, 2/25/2034	259,253	257,259
Countrywide Capital Cobalt, "AAB", Series 2006-C1, 5.223%, 8/15/2048	559,000	555,046
Countrywide Home Loans:		
"2A2C", Series 2006-HYB1, 5.217%*, 3/20/2036	930,000	930,433
"2A1", Series 2006-HYB1, 5.337%*, 3/20/2036	647,939	645,345
"A1", Series 2005-29, 5.75%, 12/25/2035	1,193,312	1,176,158
"A2", Series 2006-1, 6.0%, 3/25/2036	896,864	899,667
Credit Suisse Mortgage Capital Certificates, Inc.:		
"3A1", Series 2006-9, 6.0%, 11/25/2036	1,344,998	1,335,751
"3A19", Series 2007-5, 6.0%, 8/25/2037	1,123,993	1,119,076
First Franklin Mortgage Loan Asset Backed Certificate, "A2A", Series 2007-FFC, 5.015%*, 6/25/2027	880,997	841,946
GE Capital Commercial Mortgage Corp., "AJ", Series 2007-C1, 5.677%, 12/10/2049	1,160,000	1,106,053
GMAC Mortgage Corp. Loan Trust, "A1", Series 2006-J1, 5.75%, 4/25/2036	1,176,278	1,185,969
Greenwich Capital Commercial Funding Corp., "A2", Series 2007-GG9, 5.381%, 3/10/2039	775,000	779,022

	Principal Amount ($)(a)	Value ($)
GS Mortgage Securities Corp. II:		
"A2", Series 2006-GG8, 5.479%, 11/10/2039	1,100,000	1,110,874
"A2", Series 2007-GG10, 5.778%, 8/10/2045	1,640,000	1,671,513
"AAB", Series 2007-GG10, 5.799%*, 8/10/2045	1,620,000	1,661,658
"J", Series 2007-GG10, 144A, 5.799%*, 8/10/2045	1,096,000	698,167
"K", Series GG10, 144A, 5.799%*, 8/10/2045	767,000	449,584
GSR Mortgage Loan Trust, "2A1", Series 2007-AR1, 6.002%*, 3/25/2037	1,682,577	1,683,749
Indymac Index Mortgage Loan Trust, "3A1", Series 2006-AR33, 5.782%*, 1/25/2037	853,290	851,012
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"A3A1", Series 2005-LDP4, 4.871%, 10/15/2042	235,000	232,665
"ASB", Series 2007-CB19, 5.73%*, 2/12/2049	880,000	901,536
"F", Series 2007-LD11, 5.819%*, 6/15/2049	650,000	542,671
"G", Series 2007-LD11, 144A, 5.819%*, 6/15/2049	760,000	617,645
"H", Series 2007-LD11, 144A, 5.819%*, 6/15/2049	460,000	313,351
"ASB", Series 2007-LD12, 5.833%, 2/15/2051	1,175,000	1,205,071
JPMorgan Mortgage Trust, "2A4", Series 2006-A2, 5.752%*, 4/25/2036	1,420,000	1,393,714
Master Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	898,430	884,415
"5A1", Series 2005-2, 6.5%, 12/25/2034	116,859	119,160
"8A1", Series 2004-3, 7.0%, 4/25/2034	27,037	27,334
Master Asset Securitization Trust, "2A7", Series 2003-9, 5.5%, 10/25/2033	544,420	538,806
Merrill Lynch Mortgage Investors Trust, "A2", Series 2005-A5, 4.566%, 6/25/2035	105,000	103,808
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 5.829%*, 6/12/2050	590,000	608,451
Merrill Lynch/Countrywide Commercial Mortgage Trust, "ASB", Series 2007-5, 5.362%, 8/12/2048	1,000,000	1,000,195
Morgan Stanley Capital I:		
"A2", Series 2007-HQ11, 5.359%, 2/12/2044	1,600,000	1,605,944
"AAB", Series 2007-IQ14, 5.654%, 4/15/2049	1,105,000	1,121,720
"F", Series 1998-HF1, 144A, 7.18%, 3/15/2030	925,000	925,214
New York Mortgage Trust, "2A3", Series 2006-1, 5.649%*, 5/25/2036	1,100,000	1,110,172
Residential Accredit Loans, Inc.:		
"3A1", Series 2006-QS18, 5.75%, 12/25/2021	817,965	818,342
"CB", Series 2004-QS2, 5.75%, 2/25/2034	555,675	551,160

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

	Principal Amount ($)(a)	Value ($)
Residential Funding Mortgage Security I, "2A2", Series 2007-SA1, 5.622%*, 2/25/2037	1,429,305	1,433,849
Sequoia Mortgage Trust, "2A1", Series 2007-1, 5.823%*, 2/20/2047	1,460,947	1,472,545
Structured Adjustable Rate Mortgage Loan Trust:		
"1A4", Series 2005-22, 5.25%, 12/25/2035	1,160,000	1,160,494
"6A3", Series 2005-21, 5.4%, 11/25/2035	740,000	691,729
"5A1", Series 2005-18, 5.529%*, 9/25/2035	546,122	540,873
"7A4", Series 2006-1, 5.62%, 2/25/2036	930,000	884,201
Structured Asset Securities Corp., "2A1", Series 2003-1, 6.0%, 2/25/2018	4,427	4,432
SunTrust Adjustable Rate Mortgage Loan Trust, "3A1", Series 2007-4, 6.007%*, 10/25/2037	1,695,993	1,692,167
Wachovia Bank Commercial Mortgage Trust:		
"A3", Series 2007-C30, 5.246%, 12/15/2043	770,000	768,614
"A2", Series 2007-C31, 5.421%, 4/15/2047	1,080,000	1,084,795
"H", Series 2007-C32, 144A, 5.741%*, 6/15/2049	770,000	533,977
"J", Series 2007-C32, 144A, 5.741%*, 6/15/2049	770,000	485,706
"K", Series 2007-C32, 144A, 5.741%*, 6/15/2049	1,010,000	581,434
"ABP", Series 2007-C32, 5.741%*, 6/15/2049	720,000	735,700
Wachovia Mortgage Loan Trust LLC, "3A1", Series 2005-B, 5.154%*, 10/20/2035	1,157,902	1,137,820
Washington Mutual Mortgage Pass-Through Certificates Trust:		
"2A1", Series 2002-S8, 4.5%, 1/25/2018	28,741	28,681
"1A3", Series 2005-AR16, 5.101%*, 12/25/2035	825,000	822,086
"1A1", Series 2006-AR18, 5.347%*, 1/25/2037	1,253,268	1,250,176
"4A1", Series 2007-HY3, 5.35%*, 3/25/2037	1,694,696	1,686,884
"1A1", Series 2007-HY4, 5.554%*, 4/25/2037	1,482,983	1,476,042
"1A1", Series 2007-HY2, 5.628%*, 12/25/2036	1,466,424	1,472,647
Wells Fargo Mortgage Backed Securities Trust:		
"B1", Series 2005-AR12, 4.328%*, 7/25/2035	760,301	736,410
"2A5", Series 2006-AR2, 5.103%*, 3/25/2036	2,674,574	2,653,397
"A4", Series 2005-AR14, 5.388%*, 8/25/2035	945,000	897,135
"2A5", Series 2006-AR1, 5.553%*, 3/25/2036	935,000	883,350
"1A3", Series 2006-6, 5.75%, 5/25/2036	911,623	919,628
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $82,300,199)		**80,958,267**

Collateralized Mortgage Obligations 4.1%

		Principal Amount ($)(a)	Value ($)
Fannie Mae Whole Loan, "1A1", Series 2004-W15, 6.0%, 8/25/2044		310,081	322,067
Federal Home Loan Mortgage Corp.:			
"WJ", Series 2557, 5.0%, 7/15/2014		457,306	459,019
"EG", Series 2836, 5.0%, 12/15/2032		1,580,000	1,545,505
"PD", Series 2893, 5.0%, 2/15/2033		800,000	780,703
"OG", Series 2889, 5.0%, 5/15/2033		685,000	668,028
"PE", Series 2898, 5.0%, 5/15/2033		335,000	326,620
"ND", Series 2950, 5.0%, 6/15/2033		1,140,000	1,110,870
"PD", Series 2939, 5.0%, 7/15/2033		535,000	521,770
"KG", Series 2987, 5.0%, 12/15/2034		1,470,000	1,430,092
"PE", Series 2522, 5.5%, 3/15/2022		950,000	963,552
Federal National Mortgage Association:			
"EG", Series 2005-22, 5.0%, 11/25/2033		750,000	730,297
"PG", Series 2002-3, 5.5%, 2/25/2017		500,000	506,337
"ZQ", Series G92-9, 7.0%, 12/25/2021		62,328	62,670
Total Collateralized Mortgage Obligations (Cost $9,398,965)			**9,427,530**

Government & Agency Obligations 17.6%

Sovereign Bonds 2.1%

		Principal Amount ($)(a)	Value ($)
Dominican Republic, Series REG S, 8.625%, 4/20/2027		100,000	116,000
Federative Republic of Brazil:			
7.125%, 1/20/2037		110,000	124,300
8.25%, 1/20/2034		30,000	37,950
Government of Malaysia, Series 1/04, 4.305%, 2/27/2009	MYR	570,000	173,919
Government of Ukraine, Series REG S, 6.75%, 11/14/2017		390,000	383,175
Nota do Tesouro Nacional, 10.0%, 1/1/2017	BRL	710,000	315,574
Republic of Argentina, Series X, 7.0%, 4/17/2017		520,000	404,719
Republic of Colombia, 7.375%, 9/18/2037		200,000	222,500
Republic of Egypt:			
Series REG S, 8.75%, 7/18/2012	EGP	1,000,000	186,902
9.1%, 7/12/2010	EGP	380,000	73,007
9.1%, 9/20/2012	EGP	230,000	43,726
9.35%, 8/16/2010	EGP	80,000	15,348
Republic of El Salvador, Series REG S, 7.65%, 6/15/2035		90,000	103,950
Republic of Gabon, Series REG S, 8.2%, 12/12/2017		100,000	103,500

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

		Principal Amount ($)(a)	Value ($)
Republic of Ghana, Series REG S, 8.5%, 10/4/2017		180,000	188,316
Republic of Pakistan, Series REG S, 6.875%, 6/1/2017		170,000	151,300
Republic of Panama:			
6.7%, 1/26/2036		170,000	179,350
7.125%, 1/29/2026		220,000	242,000
7.25%, 3/15/2015		80,000	88,200
Republic of Peru, 8.2% 8/12/2026	PEN	730,000	288,784
Republic of Philippines, 8.25%, 1/15/2014		170,000	190,400
Republic of Turkey:			
Series CPI, 10.0%, 2/15/2012	TRY	290,000	268,745
16.0%, 3/7/2012	TRY	400,000	339,464
Republic of Uruguay:			
7.875%, 1/15/2033 (PIK)		50,000	56,000
8.0%, 11/18/2022		110,000	123,200
Republic of Venezuela:			
7.65%, 4/21/2025		120,000	102,600
9.25%, 9/15/2027		40,000	39,900
State of Qatar, Series REG S, 9.75%, 6/15/2030		50,000	76,690
Mexican Bonds:			
Series M-20, 8.0%, 12/7/2023	MXN	2,000,000	179,673
Series MI-10, 9.0%, 12/20/2012	MXN	930,000	88,643
			4,907,835

US Treasury Obligations 15.5%

	Principal Amount ($)(a)	Value ($)
US Treasury Bonds:		
4.75%, 2/15/2037	430,000	450,022
6.0%, 2/15/2026 (b)	7,865,000	9,307,740
6.875%, 8/15/2025 (b)	350,000	450,023
8.125%, 8/15/2019	1,100,000	1,482,766
US Treasury Inflation Index Note, 2.0%, 1/15/2014	4,925,295	5,087,293
US Treasury Notes:		
2.625%, 3/15/2009 (b)	1,235,000	1,227,667
4.25%, 9/30/2012 (b)	4,667,000	4,830,709
4.25%, 11/15/2014 (b)	340,000	350,758
4.25%, 11/15/2017 (b)	9,309,000	9,471,181
4.375%, 11/15/2008 (b)	150,000	151,184
4.375%, 12/15/2010 (b)	2,105,000	2,183,281
4.5%, 4/30/2012	160,000	167,137
5.125%, 6/30/2008 (b)	350,000	352,898
		35,512,659
Total Government and Agency Obligations (Cost $39,676,853)		**40,420,494**

Municipal Bonds and Notes 1.8%

	Principal Amount ($)(a)	Value ($)
Gainesville, FL, Post-Employment Benefits Obligation Revenue, Retiree Health Care Plan, 4.6%, 10/1/2012 (c)	630,000	630,038
Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013	670,000	682,221
Los Angeles, CA, Community Development Agency Tax Allocation Revenue, Adelante Eastside Project, Series C, 6.49%, 9/1/2037 (c)	325,000	302,981
Trenton, NJ, Core City General Obligation, School District Revenue, 4.7%, 4/1/2013 (c)	545,000	549,224
Virgin Islands, Port Authority Marine Revenue, Series B, 5.08%, 9/1/2013 (c)	1,420,000	1,458,127
Washington, State Economic Development Finance Authority Revenue, CSC Tacoma LLC Project, Series A, 3.8%, 10/1/2011 (c)	550,000	524,414
Total Municipal Bonds and Notes (Cost $4,116,014)		**4,147,005**

Preferred Stocks 0.2%

	Shares	Value ($)
Arch Capital Group Ltd., 8.0%	4,202	104,262
Delphi Financial Group, Inc., 7.376%	18,000	333,564
Ford Motor Credit Co., LLC 7.375%	1,020	18,411
Total Preferred Stocks (Cost $578,444)		**456,237**

Securities Lending Collateral 13.0%

	Shares	Value ($)
Daily Assets Fund Institutional, (d) (e) 5.03% (Cost $29,757,611)	29,757,611	**29,757,611**

Cash Equivalents 2.2%

	Shares	Value ($)
Cash Management QP Trust, (d) 4.67% (Cost $5,018,337)	5,018,337	**5,018,337**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $262,371,201)†	113.4	**260,137,564**
Other Assets and Liabilities, Net	(13.4)	**(30,629,313)**
Net Assets	100.0	**229,508,251**

* *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, 2007.*

† *The cost for federal income tax purposes was $262,412,857. At December 31, 2007, net unrealized depreciation for all securities based on tax cost was $2,275,293. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,383,252 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,658,545.*

(a) *Principal amount stated in US dollars unless otherwise noted.*

(b) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $28,962,463 which is 12.6% of net assets.*

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

(c) *Bond is insured by one of these companies:*

Insurance Coverage	As a % of Total Investment Portfolio
Financial Guaranty Insurance Co.	0.2
Financial Security Assurance, Inc.	0.6
MBIA Corp.	0.4
Radian Asset Assurance	0.1

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

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

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

PIK: Denotes that all or a portion of the income is paid in kind.

REIT: Real Estate Investment Trust

As of December 31, 2007, the Portfolio entered into the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
CAD	1,067,000	USD	1,095,494	1/25/2008	14,020
CHF	601,000	EUR	365,928	1/25/2008	3,517
EUR	186,001	AUD	317,000	1/25/2008	5,871
EUR	189,982	CAD	280,000	1/25/2008	5,903
EUR	386,228	CHF	644,000	1/25/2008	4,833
EUR	203,314	JPY	33,320,000	1/25/2008	1,718
EUR	374,751	PLN	1,356,000	1/25/2008	2,903
EUR	158,500	USD	233,020	2/21/2008	1,125
GBP	143,563	JPY	32,250,000	1/25/2008	3,944
GBP	411,000	USD	838,650	1/25/2008	21,119
JPY	30,890,000	USD	282,865	1/25/2008	5,566
USD	1,428,792	CHF	1,662,000	1/25/2008	41,679
USD	20,826	CHF	24,000	1/25/2008	409
USD	756,564	CNY	5,389,000	7/16/2008	13,346
USD	261,028	EUR	180,000	1/25/2008	2,265
USD	280,154	EUR	193,000	1/25/2008	2,156
USD	287,378	JPY	33,120,000	1/25/2008	9,940
USD	360,206	JPY	41,222,000	1/25/2008	9,844
USD	297,668	RUB	7,467,000	1/25/2008	6,611
USD	284,493	SGD	414,000	1/25/2008	3,675
USD	36,569	TRY	45,000	1/25/2008	1,493
USD	179,648	ZAR	1,249,000	1/25/2008	2,252
ZAR	1,249,000	USD	186,921	1/25/2008	5,022
Total unrealized appreciation/depreciation					**169,211**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
AUD	322,000	USD	282,185	1/25/2008	(142)
BRL	151,000	USD	80,000	1/25/2008	(4,495)
EUR	371,659	CHF	613,000	1/25/2008	(1,284)
EUR	193,658	JPY	31,050,000	1/25/2008	(4,535)
EUR	367,547	SEK	3,442,000	1/25/2008	(4,931)
EUR	413,000	USD	590,229	1/25/2008	(13,884)
JPY	1,301,284	NZD	14,822	1/25/2008	(251)
NZD	8,000	JPY	660,373	1/25/2008	(375)
NZD	373,000	USD	278,869	1/25/2008	(7,298)
NZD	355,000	USD	264,771	1/25/2008	(7,587)
PLN	1,379,000	EUR	376,175	1/25/2008	(10,169)
SGD	414,000	USD	284,165	1/25/2008	(4,003)

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
TRY	469,000	USD	377,738	1/25/2008	(18,960)
USD	592,425	AUD	668,000	1/25/2008	(6,729)
USD	589,002	CAD	556,000	1/25/2008	(25,460)
USD	262,246	EUR	178,000	1/25/2008	(1,878)
USD	552,020	GBP	266,000	1/25/2008	(22,912)
USD	83,200	UAH	416,000	1/25/2008	(970)
Total unrealized appreciation/depreciation					**(135,863)**

Currency Abbreviations

AUD	Australian Dollar	GBP	Pound Sterling	RUB	Russian Ruble
BRL	Brazilian Real	JPY	Japanese Yen	SEK	Swedish Krona
CAD	Canadian Dollar	MXN	Mexican Peso	SGD	Singapore Dollar
CHF	Swiss Franc	MYR	Malaysian Ringgit	TRY	New Turkish Lira
CNY	Yuan Renminbi	NZD	New Zealand Dollar	UAH	Ukraine Hryvna
EGP	Egyptian Pound	PEN	Peruvian Nouveau Sol	USD	United States Dollar
EUR	Euro	PLN	Polish Zloty	ZAR	South African Rand

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association and Federal Home Loan Mortgage Corp. issues have similar coupon rates and have been aggregated for presentation purposes in the investment portfolio.

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $227,595,253), including $29,962,463 of securities loaned	$ 225,361,616
Investment in Daily Assets Fund Institutional (cost $29,757,611)*	29,757,611
Investment in Cash Management QP Trust (cost $5,018,337)	5,018,337
Total investments, at value (cost $262,371,201)	260,137,564
Cash	20,000
Foreign currency, at value (cost $21,616)	21,368
Receivable for investments sold	6,191
Dividends receivable	470
Interest receivable	2,054,591
Receivable for Portfolio shares sold	224,511
Foreign taxes recoverable	7,561
Net receivable on closed forward foreign currency exchange contracts	4,100
Unrealized appreciation on open forward foreign currency exchange contracts	169,211
Other assets	5,736
Total assets	262,651,303

Liabilities	
Payable for investments purchased	2,566,651
Payable for Portfolio shares redeemed	470,303
Payable upon return of securities loaned	29,757,611
Unrealized depreciation on open forward foreign currency exchange contracts	135,863
Accrued management fee	72,753
Accrued distribution service fee (Class B)	122
Other accrued expenses and payables	139,749
Total liabilities	33,143,052
Net assets, at value	**$ 229,508,251**

Net Assets Consist of	
Undistributed net investment income	10,802,062
Net unrealized appreciation (depreciation) on:	
Investments	(2,233,637)
Foreign currency	37,545
Accumulated net realized gain (loss)	(1,443,857)
Paid-in capital	222,346,138
Net assets, at value	**$ 229,508,251**
Class A	
Net Asset Value, offering and redemption price per share ($228,896,721 ÷ 32,791,859 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 6.98**
Class B	
Net Asset Value, offering and redemption price per share ($611,530 ÷ 87,887 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 6.96**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Dividends	$ 27,526
Interest (net of foreign taxes withheld of $8,130)	12,149,576
Interest — Cash Management QP Trust	355,525
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	92,506
Total Income	12,625,133
Expenses:	
Management fee	873,517
Administration fee	223,979
Custodian fee	39,847
Distribution service fee (Class B)	2,631
Services to shareholders	2,584
Record keeping fee (Class B)	1,278
Professional fees	59,977
Trustees' fees and expenses	10,912
Reports to shareholders	138,583
Other	20,534
Total expenses before expense reductions	1,373,842
Expense reductions	(238)
Total expenses after expense reductions	1,373,604
Net investment income	**11,251,529**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	377,331
Foreign currency	(499,125)
	(121,794)
Change in net unrealized appreciation (depreciation) on:	
Investments	(2,078,966)
Foreign currency	100,871
	(1,978,095)
Net gain (loss)	**(2,099,889)**
Net increase (decrease) in net assets resulting from operations	**$ 9,151,640**

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, 2007	2006
Operations:		
Net investment income	$ 11,251,529	$ 10,339,954
Net realized gain (loss)	(121,794)	(1,437,844)
Change in net unrealized appreciation (depreciation)	(1,978,095)	1,127,759
Net increase (decrease) in net assets resulting from operations	9,151,640	10,029,869
Distributions to shareholders from:		
Net investment income:		
Class A	(10,313,794)	(7,979,436)
Class B	(83,297)	(26,938)
Net realized gains:		
Class A	—	(254,695)
Class B	—	(953)
Total distributions	(10,397,091)	(8,262,022)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	38,092,545	35,231,866
Reinvestment of distributions	10,313,794	8,234,131
Cost of shares redeemed	(36,534,184)	(35,894,600)
Net increase (decrease) in net assets from Class A share transactions	11,872,155	7,571,397
Class B		
Proceeds from shares sold	1,299,403	1,183,848
Reinvestment of distributions	83,297	27,891
Cost of shares redeemed	(2,108,764)	(308,110)
Net increase (decrease) in net assets from Class B share transactions	(726,064)	903,629
Increase (decrease) in net assets	9,900,640	10,242,873
Net assets at beginning of period	219,607,611	209,364,738
Net assets at end of period (including undistributed net investment income of $10,802,062 and $10,422,246, respectively)	**$ 229,508,251**	**$ 219,607,611**

Other Information		
Class A		
Shares outstanding at beginning of period	31,026,023	29,892,841
Shares sold	5,515,644	5,142,133
Shares issued to shareholders in reinvestment of distributions	1,510,072	1,234,502
Shares redeemed	(5,259,880)	(5,243,453)
Net increase (decrease) in Class A shares	1,765,836	1,133,182
Shares outstanding at end of period	**32,791,859**	**31,026,023**
Class B		
Shares outstanding at beginning of period	198,161	66,058
Shares sold	183,436	172,869
Shares issued to shareholders in reinvestment of distributions	12,196	4,182
Shares redeemed	(305,906)	(44,948)
Net increase (decrease) in Class B shares	(110,274)	132,103
Shares outstanding at end of period	**87,887**	**198,161**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$ 7.03**	**$ 6.99**	**$ 7.13**	**$ 7.04**	**$ 6.98**
Income (loss) from investment operations:					
Net investment income[a]	.35	.33	.29	.29	.26
Net realized and unrealized gain (loss)	(.06)	(.01)	(.10)	.08	.09
Total from investment operations	.29	.32	.19	.37	.35
Less distributions from:					
Net investment income	(.34)	(.27)	(.26)	(.28)	(.29)
Net realized gains	—	(.01)	(.07)	—	—
Total distributions	(.34)	(.28)	(.33)	(.28)	(.29)
Net asset value, end of period	**$ 6.98**	**$ 7.03**	**$ 6.99**	**$ 7.13**	**$ 7.04**
Total Return (%)	4.18	4.72[b]	2.60	5.38	5.06
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	229	218	209	177	176
Ratio of expenses before expense reductions (%)	.61	.66	.68	.60	.58
Ratio of expenses after expense reductions (%)	.61	.62	.68	.60	.58
Ratio of net investment income (%)	5.03	4.82	4.11	4.18	3.78
Portfolio turnover rate (%)[c]	176	179	187	223	242

[a] *Based on average shares outstanding during the period.*
[b] *Total return would have been lower had certain expenses not been reduced.*
[c] *The portfolio turnover rate including mortgage dollar roll transactions was 185%, 186%, 197%, 245% and 286% for the years ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004, and December 31, 2003, respectively.*

Class B

Years Ended December 31,	2007	2006	2005[a]
Selected Per Share Data			
Net asset value, beginning of period	**$ 7.01**	**$ 6.97**	**$ 6.88**
Income (loss) from investment operations:			
Net investment income[b]	.32	.30	.18
Net realized and unrealized gain (loss)	(.06)	(.01)	(.09)
Total from investment operations	.26	.29	.09
Less distributions from:			
Net investment income	(.31)	(.24)	—
Net realized gains	—	(.01)	—
Total distributions	(.31)	(.25)	—
Net asset value, end of period	**$ 6.96**	**$ 7.01**	**$ 6.97**
Total Return (%)	3.77	4.33[c]	1.31**
Ratios to Average Net Assets and Supplemental Data			
Net assets, end of period ($ millions)	.6	1	.5
Ratio of expenses, before expense reductions (%)	1.02	1.04	1.04*
Ratio of expenses, after expense reductions (%)	1.02	.99	1.04*
Ratio of net investment income (%)	4.62	4.45	3.86*
Portfolio turnover rate (%)[d]	176	179	187**

[a] *For the period May 2, 2005 (commencement of operations of Class B shares) to December 31, 2005.*
[b] *Based on average shares outstanding during the period.*
[c] *Total return would have been lower had certain expenses not been reduced.*
[d] *The portfolio turnover rate including mortgage dollar roll transactions was 185% and 186% for the years ended December 31, 2007 and December 31, 2006 and 197% for the period ended December 31, 2005, respectively.*
* *Annualized* ** *Not annualized*

DWS Growth & Income VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

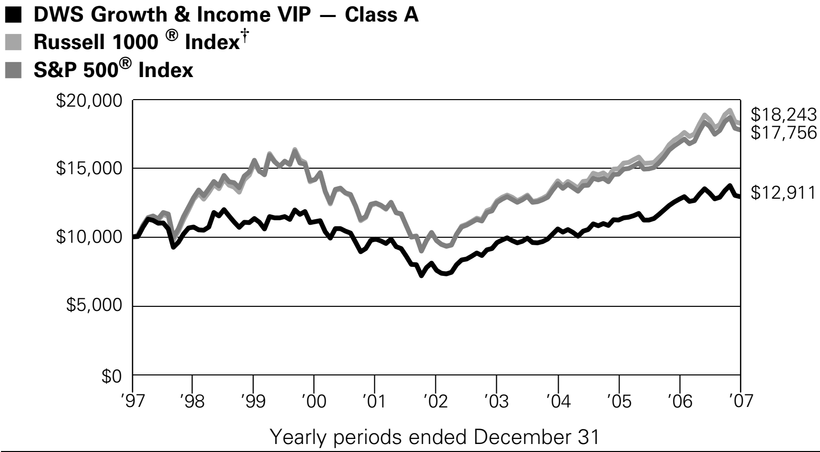
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 0.54% and 0.90% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

Portfolio returns during all periods shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

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.

Growth of an Assumed $10,000 Investment



The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. The Standard & Poor's® 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns 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

DWS Growth & Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,136	$12,216	$17,055	$12,911
	Average annual total return	1.36%	6.90%	11.27%	2.59%
Russell 1000 Index†	Growth of $10,000	$10,577	$12,978	$18,780	$18,243
	Average annual total return	5.77%	9.08%	13.43%	6.20%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$17,756
	Average annual total return	5.49%	8.62%	12.83%	5.91%

DWS Growth & Income VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,100	$12,097	$16,805	$12,544
	Average annual total return	1.00%	6.55%	10.94%	2.29%
Russell 1000 Index†	Growth of $10,000	$10,577	$12,978	$18,780	$18,243
	Average annual total return	5.77%	9.08%	13.43%	6.20%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$17,756
	Average annual total return	5.49%	8.62%	12.83%	5.91%

The growth of $10,000 is cumulative.

† *On January 23, 2007, The Russell 1000 Index replaced the S&P 500 as the Portfolio's benchmark index because the Advisor believes that it more accurately reflects the Portfolio's investment strategy.*

Information About Your Portfolio's Expenses

DWS Growth & Income VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$ 980.10	$ 978.20
Expenses Paid per $1,000*	$ 2.70	$ 4.44

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,022.48	$1,020.72
Expenses Paid per $1,000*	$ 2.75	$ 4.53

* *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
DWS Variable Series I — DWS Growth & Income VIP	.54%	.89%

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

These tables do not 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.

DWS Growth & Income VIP

Except for a period of weakness in late February and early March, equity markets were quite strong during the first half of 2007. By the end of May, most indices were at or near their all-time highs, and positive trends continued through mid-July before drifting lower in the late summer. A rally in September was sparked in part by the first of the US Federal Reserve Board's (the Fed's) three interest rate reductions. Volatility increased in the fourth quarter, as markets responded to further bad news about the potential impact of the subprime mortgage crisis. For the full year, the Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, returned 5.14%. Growth stocks, as measured by the Russell 1000® Growth index, performed significantly better than value stocks, as measured by the Russell 1000® Value index. With a return of 1.36% (Class A shares, unadjusted for contract charges), the portfolio underperformed its benchmark, the Russell 1000® Index, which posted a return of 5.77%.

There has been a change in management for this Portfolio since the 2006 annual report. Beginning in January 2007, a new team assumed responsibility for management of the Portfolio, using a quantitative model focused on stock selection. Because of this transition, Portfolio turnover was somewhat higher than usual during the year, as holdings were adjusted to conform to the model. Since sector weights of this Portfolio are normally maintained quite close to those of the Russell 1000 Index, most differences in return between the Portfolio and the index result from stock selection. During 2007, stock selection in the banks and materials sectors contributed to performance relative to the Russell 1000 Index. Positions in the technology hardware & equipment, transportation and consumer durables and apparel sectors detracted from performance.

In the banks sector, the Portfolio's performance benefited from not owning many of the worst-performing stocks, particularly those with significant involvement in mortgage lending. In materials, holdings that were especially strong were Southern Copper Corp.*, which is benefiting from strong world demand, and Lyondell Chemical Company*, which has significant involvement in energy.

In information technology, a significant detractor was a position in printer manufacturer Lexmark International Inc. In the transportation sector, performance was hurt by positions in several airlines including AMR Corp. and Continental Airlines, Inc. Concern about consumer spending led to poor performance of many stocks in the consumer durables & apparel sector; positions that detracted from performance include home builders NVR Inc. and Centex Corp.* and apparel/accessories marketers Polo Ralph Lauren Corp. and Coach, Inc.*

Robert Wang Jin Chen, CFA
Julie Abbett
Portfolio Managers

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. Derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on an underlying Portfolio's derivative position. Investing in securities of emerging markets presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Please read this Portfolio's prospectus for specific information regarding its investments and risk profile.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

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.

The Russell 1000 Value Index is an unmanaged index that consists of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth values.

The Russell 1000 Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

Index returns 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.

* *As of December 31, 2007, the positions were not held.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Growth & Income VIP

Asset Allocation (As a % of Investment Portfolio Excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	97%	99%
Cash Equivalents	3%	—
Exchange Traded Funds	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Information Technology	15%	15%
Financials	15%	22%
Health Care	14%	12%
Energy	14%	10%
Industrials	13%	12%
Consumer Discretionary	11%	10%
Consumer Staples	9%	9%
Telecommunication Services	4%	4%
Materials	3%	3%
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 22. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS Growth & Income VIP

	Shares	Value ($)
Common Stocks 96.7%		
Consumer Discretionary 10.5%		
Auto Components 0.9%		
American Axle & Manufacturing Holdings, Inc.	1,600	29,792
Autoliv, Inc.	9,200	484,932
Johnson Controls, Inc.	22,200	800,088
Lear Corp.*	17,400	481,284
		1,796,096
Hotels Restaurants & Leisure 2.1%		
Darden Restaurants, Inc.	16,700	462,757
McDonald's Corp.	42,900	2,527,239
Yum! Brands, Inc.	35,900	1,373,893
		4,363,889
Household Durables 0.5%		
NVR, Inc.*	2,000	**1,048,000**
Leisure Equipment & Products 0.2%		
Hasbro, Inc.	14,600	373,468
Polaris Industries, Inc. (a)	2,800	133,756
		507,224
Media 2.0%		
Comcast Corp. "A"*	38,300	699,358
McGraw-Hill Companies, Inc.	14,530	636,559
The DIRECTV Group, Inc.*	124,100	2,869,192
		4,205,109
Multiline Retail 1.3%		
Big Lots, Inc.*	58,000	927,420
Dollar Tree Stores, Inc.*	28,100	728,352
Family Dollar Stores, Inc.	56,200	1,080,726
		2,736,498
Specialty Retail 2.8%		
AutoZone, Inc.*	16,200	1,942,542
Best Buy Co., Inc.	2,600	136,890
Dick's Sporting Goods, Inc.*	41,000	1,138,160
RadioShack Corp.	77,400	1,304,964
The Men's Wearhouse, Inc.	5,600	151,088
The Sherwin-Williams Co.	11,300	655,852
TJX Companies, Inc.	17,700	508,521
		5,838,017
Textiles, Apparel & Luxury Goods 0.7%		
Polo Ralph Lauren Corp.	25,400	**1,569,466**
Consumer Staples 8.9%		
Beverages 2.5%		
Anheuser-Busch Companies, Inc.	12,400	649,016
Coca-Cola Enterprises, Inc.	45,300	1,179,159
Diageo PLC (ADR)	700	60,081
Pepsi Bottling Group, Inc.	16,900	666,874
PepsiCo, Inc.	35,500	2,694,450
		5,249,580
Food & Staples Retailing 2.0%		
Costco Wholesale Corp.	19,500	1,360,320
Kroger Co.	84,700	2,262,337
SUPERVALU, Inc.	1,900	71,288
Sysco Corp.	17,100	533,691
		4,227,636
Food Products 0.3%		
Fresh Del Monte Produce, Inc.*	6,000	201,480
Kellogg Co.	2,200	115,346
The J.M. Smucker Co.	1,200	61,728
Wm. Wrigley Jr. Co.	3,300	193,215
		571,769
Household Products 2.1%		
Colgate-Palmolive Co.	36,100	2,814,356
Kimberly-Clark Corp.	14,900	1,033,166
Procter & Gamble Co.	7,000	513,940
		4,361,462
Personal Products 0.1%		
Herbalife Ltd.	6,600	**265,848**
Tobacco 1.9%		
Altria Group, Inc.	33,720	2,548,558
Loews Corp. - Carolina Group	18,200	1,552,460
		4,101,018
Energy 13.1%		
Energy Equipment & Services 4.7%		
ENSCO International, Inc.	24,600	1,466,652
Global Industries Ltd.*	39,100	837,522
Helmerich & Payne, Inc.	4,200	168,294
National-Oilwell Varco, Inc.*	1,300	95,498
Noble Corp.	44,000	2,486,440
Schlumberger Ltd.	4,700	462,339
Tidewater, Inc.	5,800	318,188
Transocean, Inc.*	28,611	4,095,664
		9,930,597
Oil, Gas & Consumable Fuels 8.4%		
Chevron Corp.	50,600	4,722,498
Exxon Mobil Corp.	23,039	2,158,524
Frontier Oil Corp.	29,700	1,205,226
Hess Corp.	27,100	2,733,306
Petroleo Brasileiro SA (ADR) (Preferred)	21,900	2,107,218
Royal Dutch Shell PLC "A" (ADR)	26,000	2,189,200
Sunoco, Inc.	3,300	239,052
Tesoro Corp.	39,600	1,888,920
Western Refining, Inc.	6,000	145,260
Williams Companies, Inc.	6,900	246,882
		17,636,086
Financials 14.6%		
Capital Markets 4.2%		
Lazard Ltd. "A"	1,600	65,088
Morgan Stanley	76,035	4,038,219
The Goldman Sachs Group, Inc.	21,865	4,702,068
		8,805,375
Commercial Banks 0.6%		
PNC Financial Services Group, Inc.	14,900	978,185
US Bancorp.	8,900	282,486
		1,260,671
Diversified Financial Services 3.7%		
Bank of America Corp.	72,670	2,998,364
Citigroup, Inc.	74,100	2,181,504

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

	Shares	Value ($)
JPMorgan Chase & Co.	61,100	2,667,015
		7,846,883
Insurance 5.6%		
ACE Ltd.	26,100	1,612,458
Berkshire Hathaway, Inc. "B"*	300	1,420,800
China Life Insurance Co., Ltd. "H" (ADR)	7,900	604,350
Endurance Specialty Holdings Ltd.	2,600	108,498
Hartford Financial Services Group, Inc.	17,900	1,560,701
MetLife, Inc.	49,950	3,077,919
PartnerRe Ltd.	2,900	239,337
The Travelers Companies, Inc.	10,800	581,040
W.R. Berkley Corp.	9,400	280,214
XL Capital Ltd. "A"	45,800	2,304,198
		11,789,515
Real Estate Investment Trusts 0.3%		
ProLogis (REIT)	7,600	481,688
Vornado Realty Trust (REIT)	1,400	123,130
		604,818
Real Estate Management & Development 0.2%		
Jones Lang LaSalle, Inc.	4,700	**334,452**
Health Care 13.8%		
Biotechnology 2.0%		
Amgen, Inc.*	19,100	887,004
Gilead Sciences, Inc.*	70,500	3,243,705
Onyx Pharmaceuticals, Inc.*	3,200	177,984
		4,308,693
Health Care Equipment & Supplies 1.2%		
Baxter International, Inc.	7,600	441,180
Becton, Dickinson & Co.	14,200	1,186,836
Kinetic Concepts, Inc.*	16,100	862,316
		2,490,332
Health Care Providers & Services 5.2%		
Aetna, Inc.	55,700	3,215,561
Coventry Health Care, Inc.*	15,600	924,300
Health Net, Inc.*	25,900	1,250,970
Humana, Inc.*	37,800	2,846,718
McKesson Corp.	7,000	458,570
Medco Health Solutions, Inc.*	22,600	2,291,640
		10,987,759
Life Sciences Tools & Services 0.6%		
Invitrogen Corp.*	12,700	**1,186,307**
Pharmaceuticals 4.8%		
Bristol-Myers Squibb Co.	119,700	3,174,444
Eli Lilly & Co.	21,400	1,142,546
Endo Pharmaceuticals Holdings, Inc.*	9,600	256,032
Merck & Co., Inc.	27,400	1,592,214
Pfizer, Inc.	25,900	588,707
Schering-Plough Corp.	81,000	2,157,840
Sepracor, Inc.*	46,600	1,223,250
		10,135,033
Industrials 12.4%		
Aerospace & Defense 6.2%		
Boeing Co.	43,540	3,808,009
General Dynamics Corp.	5,300	471,647
Goodrich Corp.	4,300	303,623
Honeywell International, Inc.	59,920	3,689,274
Lockheed Martin Corp.	34,800	3,663,048
Northrop Grumman Corp.	13,000	1,022,320
		12,957,921
Airlines 1.4%		
AMR Corp.*	98,500	1,381,955
Continental Airlines, Inc. "B"*	51,700	1,150,325
Delta Air Lines, Inc.*	13,400	199,526
US Airways Group, Inc.*	21,600	317,736
		3,049,542
Commercial Services & Supplies 0.3%		
Allied Waste Industries, Inc.*	40,300	444,106
Dun & Bradstreet Corp.	2,500	221,575
The Brink's Co.	1,200	71,688
		737,369
Construction & Engineering 1.3%		
Fluor Corp.	15,800	2,302,376
Shaw Group, Inc.*	5,800	350,552
		2,652,928
Electrical Equipment 0.3%		
Belden, Inc.	5,800	258,100
Emerson Electric Co.	8,000	453,280
		711,380
Industrial Conglomerates 0.8%		
General Electric Co.	43,050	1,595,863
Teleflex, Inc.	1,800	113,418
		1,709,281
Machinery 1.6%		
AGCO Corp.*	7,100	482,658
Caterpillar, Inc.	19,400	1,407,664
PACCAR, Inc.	20,700	1,127,736
Parker Hannifin Corp.	5,000	376,550
		3,394,608
Road & Rail 0.5%		
Ryder System, Inc.	20,500	**963,705**
Information Technology 15.0%		
Communications Equipment 0.6%		
Cisco Systems, Inc.*	5,930	160,525
Nokia Oyj (ADR)	27,700	1,063,403
		1,223,928
Computers & Peripherals 4.8%		
Apple, Inc.*	16,900	3,347,552
Hewlett-Packard Co.	22,200	1,120,656
International Business Machines Corp.	45,200	4,886,120
Lexmark International, Inc. "A"*	19,600	683,256
QLogic Corp.*	5,700	80,940
		10,118,524
Electronic Equipment & Instruments 0.8%		
Arrow Electronics, Inc.*	7,100	278,888
AU Optronics Corp. (ADR) (a)	42,200	810,240
Avnet, Inc.*	10,100	353,197
LG.Philips LCD Co., Ltd. (ADR)*	8,500	220,830
		1,663,155
Internet Software & Services 1.2%		
eBay, Inc.*	17,570	583,148
Google, Inc. "A"*	2,820	1,949,974
		2,533,122

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

	Shares	Value ($)
IT Services 2.2%		
Accenture Ltd. "A"	85,000	3,062,550
Computer Sciences Corp.*	24,600	1,216,962
MasterCard, Inc. "A"	1,700	365,840
		4,645,352
Office Electronics 0.1%		
Canon, Inc. (ADR)	2,600	**119,158**
Semiconductors & Semiconductor Equipment 1.9%		
Amkor Technology, Inc.*	16,700	142,451
Applied Materials, Inc.	122,000	2,166,720
MEMC Electronic Materials, Inc.*	18,500	1,637,065
Teradyne, Inc.*	2,800	28,952
		3,975,188
Software 3.4%		
Compuware Corp.*	6,200	55,056
Microsoft Corp.	183,175	6,521,030
Symantec Corp.*	35,930	579,910
		7,155,996
Materials 2.7%		
Chemicals 2.4%		
Celanese Corp. "A"	25,100	1,062,232
CF Industries Holdings, Inc.	13,900	1,529,834
Eastman Chemical Co.	6,500	397,085
Terra Industries, Inc.*	41,800	1,996,368
		4,985,519
Containers & Packaging 0.2%		
Packaging Corp. of America	12,300	**346,860**
Metals & Mining 0.1%		
Allegheny Technologies, Inc.	3,000	**259,200**
Telecommunication Services 4.1%		
Diversified Telecommunication Services 4.0%		
AT&T, Inc.	31,980	1,329,089
CenturyTel, Inc.	14,600	605,316
Embarq Corp.	32,600	1,614,678
Telus Corp.	1,300	65,122
Verizon Communications, Inc.	97,400	4,255,407
Windstream Corp.	44,700	581,994
		8,451,606
Wireless Telecommunication Services 0.1%		
Telephone & Data Systems, Inc.	3,100	**194,060**
Utilities 1.6%		
Electric Utilities 0.6%		
American Electric Power Co., Inc.	7,800	363,168
Edison International	9,900	528,363
FirstEnergy Corp.	4,800	347,232
		1,238,763
Gas Utilities 0.0%		
Energen Corp.	1,000	**64,230**
Independent Power Producers & Energy Traders 0.2%		
Constellation Energy Group	4,200	**430,626**
Multi-Utilities 0.8%		
Sempra Energy	26,100	**1,615,067**
Total Common Stocks (Cost $192,469,273)		**203,355,221**

	Principal Amount ($)	Value ($)
Government & Agency Obligations 0.3%		
US Treasury Bill, 3.7%**, 1/17/2008 (b) (Cost $599,341)	600,000	**599,341**

	Shares	Value ($)
Securities Lending Collateral 0.2%		
Daily Assets Fund Institutional, 5.03%(c) (d) (Cost $353,640)	353,640	**353,640**
Cash Equivalents 3.0%		
Cash Management QP Trust, 4.67%(c) (Cost $6,276,381)	6,276,381	**6,276,381**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $199,698,635)†	100.2	**210,584,583**
Other Assets and Liabilities, Net	(0.2)	**(436,272)**
Net Assets	100.0	**210,148,311**

* *Non-income producing security.*

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

† *The cost for federal income tax purposes was $202,012,439. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $8,572,144. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $20,467,497 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $11,895,353.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $345,048 which is 0.2% of net assets.*

(b) *At December 31, 2007, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

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

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

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

At December 31, 2007, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Depreciation ($)
S&P 500 Index	3/19/2008	18	6,666,956	6,647,400	(19,556)

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $193,068,614), including $345,048 of securities loaned	$ 203,954,562
Investment in Daily Assets Fund Institutional (cost $353,640)*	353,640
Investment in Cash Management QP Trust (cost $6,276,381)	6,276,381
Total investments, at value (cost $199,698,635)	210,584,583
Dividends receivable	201,405
Interest receivable	22,540
Receivable for Portfolio shares sold	28,822
Foreign taxes recoverable	514
Due from Advisor	12,349
Other assets	6,072
Total assets	210,856,285
Liabilities	
Payable for Portfolio shares redeemed	132,303
Payable upon return of securities loaned	353,640
Payable for daily variation margin on open futures contracts	37,350
Accrued management fee	75,074
Accrued distribution service fee (Class B)	2,836
Other accrued expenses and payables	106,771
Total liabilities	707,974
Net assets, at value	**$ 210,148,311**
Net Assets Consist of	
Undistributed net investment income	3,269,183
Net unrealized appreciation (depreciation) on:	
Investments	10,885,948
Futures	(19,556)
Foreign currency	12
Accumulated net realized gain (loss)	26,732,198
Paid-in capital	169,280,526
Net assets, at value	**$ 210,148,311**
Class A	
Net Asset Value, offering and redemption price per share ($195,545,721 ÷ 18,082,818 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 10.81**
Class B	
Net Asset Value, offering and redemption price per share ($14,602,590 ÷ 1,355,326 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 10.77**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $22,418)	$ 4,592,340
Interest	25,658
Interest — Cash Management QP Trust	331,676
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	30,040
Total Income	4,979,714
Expenses:	
Management fee	1,103,548
Administration fee	285,358
Custodian fee	37,245
Distribution service fee (Class B)	69,685
Services to shareholders	1,548
Record keeping fee (Class B)	31,287
Professional fees	54,538
Trustees' fees and expenses	12,186
Reports to shareholders	121,005
Other	17,648
Total expenses before expense reductions	1,734,048
Expense reductions	(35,497)
Total expenses after expense reductions	1,698,551
Net investment income (loss)	**3,281,163**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	38,153,711
Futures	533,221
Foreign currency	2,927
	38,689,859
Change in net unrealized appreciation (depreciation) on:	
Investments	(35,720,119)
Futures	(19,556)
Foreign currency	185
	(35,739,490)
Net gain (loss)	**2,950,369**
Net increase (decrease) in net assets resulting from operations	**$ 6,231,532**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 3,281,163	$ 3,845,235
Net realized gain (loss)	38,689,859	24,911,633
Change in net unrealized appreciation (depreciation)	(35,739,490)	12,505,619
Net increase (decrease) in net assets resulting from operations	6,231,532	41,262,487
Distributions to shareholders from:		
Net investment income:		
Class A	(3,254,218)	(2,664,327)
Class B	(431,057)	(286,921)
Net realized gains:		
Class A	(3,589,531)	—
Class B	(675,883)	—
Total distributions	$ (7,950,689)	$ (2,951,248)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	7,943,494	14,579,038
Reinvestment of distributions	6,843,749	2,664,327
Cost of shares redeemed	(96,721,167)	(64,690,476)
Net increase (decrease) in net assets from Class A share transactions	(81,933,924)	(47,447,111)
Class B		
Proceeds from shares sold	1,756,094	8,202,285
Net assets acquired in tax-free reorganization	—	5,500,068
Reinvestment of distributions	1,106,940	286,921
Cost of shares redeemed	(40,893,714)	(14,614,169)
Net increase (decrease) in net assets from Class B share transactions	(38,030,680)	(624,895)
Increase (decrease) in net assets	(121,683,761)	(9,760,767)
Net assets at beginning of period	331,832,072	341,592,839
Net assets at end of period (including undistributed net investment income of $3,269,183 and $3,670,368, respectively)	**$ 210,148,311**	**$ 331,832,072**

Other Information		
Class A		
Shares outstanding at beginning of period	25,561,711	30,277,518
Shares sold	724,126	1,462,864
Shares issued to shareholders in reinvestment of distributions	621,594	265,107
Shares redeemed	(8,824,613)	(6,443,778)
Net increase (decrease) in Class A shares	(7,478,893)	(4,715,807)
Shares outstanding at end of period	**18,082,818**	**25,561,711**
Class B		
Shares outstanding at beginning of period	4,788,468	4,883,742
Shares sold	161,143	780,726
Shares issued in tax-free reorganization	—	509,730
Shares issued to shareholders in reinvestment of distributions	100,722	28,606
Shares redeemed	(3,695,007)	(1,414,336)
Net increase (decrease) in Class B shares	(3,433,142)	(95,274)
Shares outstanding at end of period	**1,355,326**	**4,788,468**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$10.94**	**$ 9.72**	**$ 9.29**	**$ 8.50**	**$ 6.77**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.13	.13[c]	.10	.12	.07
Net realized and unrealized gain (loss)	.02	1.19	.45	.74	1.74
Total from investment operations	.15	1.32	.55	.86	1.81
Less distributions from:					
Net investment income	(.13)	(.10)	(.12)	(.07)	(.08)
Net realized gains	(.15)	—	—	—	—
Total distributions	(.28)	(.10)	(.12)	(.07)	(.08)
Net asset value, end of period	**$10.81**	**$10.94**	**$ 9.72**	**$ 9.29**	**$ 8.50**
Total Return (%)	1.36[b]	13.63[b,c]	6.07[b]	10.16	26.74
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	196	280	294	172	161
Ratio of expenses before expense reductions (%)	.57	.56	.57	.56	.59
Ratio of expenses after expense reductions (%)	.56	.54	.54	.56	.59
Ratio of net investment income (loss) (%)	1.18	1.24[c]	1.10	1.37	.91
Portfolio turnover rate (%)	310	105	115	33	37

[a] *Based on average shares outstanding during the period.*

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

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.007 per share and an increase in the ratio of net investment income of 0.07%. Excluding this non-recurring income, total return would have been 0.06% lower.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$10.90**	**$ 9.68**	**$ 9.25**	**$ 8.47**	**$ 6.75**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.09	.09[c]	.07	.09	.05
Net realized and unrealized gain (loss)	.02	1.19	.45	.73	1.73
Total from investment operations	.11	1.28	.52	.82	1.78
Less distributions from:					
Net investment income	(.09)	(.06)	(.09)	(.04)	(.06)
Net realized gains	(.15)	—	—	—	—
Total distributions	(.24)	(.06)	(.09)	(.04)	(.06)
Net asset value, end of period	**$10.77**	**$10.90**	**$ 9.68**	**$ 9.25**	**$ 8.47**
Total Return (%)	1.00[b]	13.28[b,c]	5.73[b]	9.78	26.55
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	15	52	47	33	18
Ratio of expenses before expense reductions (%)	.95	.94	.95	.89	.85
Ratio of expenses after expense reductions (%)	.92	.89	.89	.89	.85
Ratio of net investment income (loss) (%)	.82	.89[c]	.75	1.04	.65
Portfolio turnover rate (%)	310	105	115	33	37

[a] *Based on average shares outstanding during the period.*

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

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.007 per share and an increase in the ratio of net investment income of 0.07%. Excluding this non-recurring income, total return would have been 0.06% lower.*

DWS Capital Growth VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

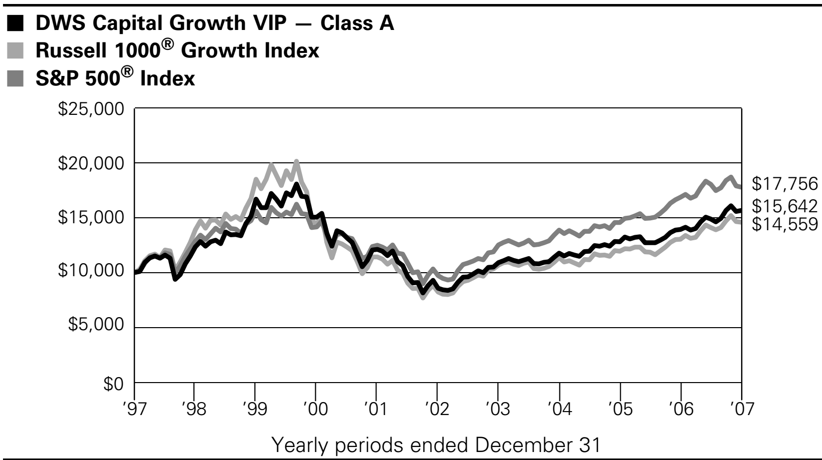
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 0.50% and 0.82% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

Portfolio returns during all periods shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

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.

Growth of an Assumed $10,000 Investment



The Russell 1000® Growth Index is an unmanaged, capitalization- weighted index containing those securities in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values. The Standard & Poor's 500® (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns 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

DWS Capital Growth VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class A	Growth of $10,000	$11,259	$13,314	$18,242	$15,642
	Average annual total return	12.59%	10.01%	12.78%	4.58%
Russell 1000 Growth Index	Growth of $10,000	$11,181	$12,838	$17,706	$14,559
	Average annual total return	11.81%	8.68%	12.11%	3.83%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$17,756
	Average annual total return	5.49%	8.62%	12.83%	5.91%

DWS Capital Growth VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$11,218	$13,167	$17,917	$15,154
	Average annual total return	12.18%	9.61%	12.37%	4.24%
Russell 1000 Growth Index	Growth of $10,000	$11,181	$12,838	$17,706	$14,559
	Average annual total return	11.81%	8.68%	12.11%	3.83%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$17,756
	Average annual total return	5.49%	8.62%	12.83%	5.91%

The growth of $10,000 is cumulative.

Information About Your Portfolio's Expenses

DWS Capital Growth VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,053.70	$1,051.80
Expenses Paid per $1,000*	$ 2.54	$ 4.24
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,022.74	$1,021.07
Expenses Paid per $1,000*	$ 2.50	$ 4.18

* *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**
DWS Variable Series I — DWS Capital Growth VIP	.49%	.82%

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

These tables do not 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.

Management Summary

December 31, 2007

DWS Capital Growth VIP

Except for a period of weakness in late February and early March, equity markets were quite strong during the first half of 2007. By the end of May, most indices were at or near their all-time highs, and positive trends continued through mid-July before drifting lower in the late summer. A rally in September was sparked in part by the first of the US Federal Reserve Board's (the Fed's) three interest rate reductions. Volatility increased in the fourth quarter, as markets responded to further bad news about the potential impact of the sub-prime mortgage crisis.

For the full year, the Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, returned 5.14%. Growth stocks, as measured by the Russell 1000® Growth index, performed significantly better than value stocks, as measured by the Russell 1000® Value index.

With a return of 12.59% (Class A shares, unadjusted for contract charges), the Portfolio outperformed its benchmarks, the Russell 1000 Growth Index, which posted a return of 11.81%, and the Standard & Poor's 500® Index, which returned 5.49%. The Portfolio's performance relative to the Russell 1000 Growth Index was helped by both sector allocation decisions and stock selection.

Positioning within the energy sector was the largest contributor to performance during the period as the Portfolio's significant overweight to the sector continued to be rewarded.[1] Energy holdings that performed especially well include Schlumberger Ltd. and Transocean, Inc.

Stock selection in the information technology sector also contributed to performance. The strongest returns came from those firms with innovative new products or dominant/growing market share positions. Examples of this strength included portfolio holdings Apple, Inc. and Google, Inc.

Security selection within the consumer discretionary and health care sectors detracted from performance. In the consumer discretionary sector, shares of several retailers dropped, as investors demonstrated concern about consumer spending. In health care, performance was hurt by drops in positions including Celgene Corp. and Genentech, Inc. However, several health care holdings, including Gilead Sciences, Inc. and Baxter International, Inc. were up strongly.

Julie M. Van Cleave, CFA
Lead Portfolio Manager

Jack A. Zehner
Richard Shepley
Portfolio Managers

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.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

The Russell 3000 Index measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

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.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Standard & Poor's 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly in an index.

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Capital Growth VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	98%	98%
Cash Equivalents	2%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Information Technology	24%	22%
Health Care	18%	19%
Energy	14%	15%
Consumer Staples	11%	14%
Industrials	11%	9%
Consumer Discretionary	10%	12%
Financials	5%	8%
Materials	4%	1%
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 32. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS Capital Growth VIP

	Shares	Value ($)
Common Stocks 97.8%		
Consumer Discretionary 10.0%		
Automobiles 0.6%		
Harley-Davidson, Inc.	145,300	**6,786,963**
Hotels Restaurants & Leisure 1.7%		
McDonald's Corp.	307,900	**18,138,389**
Household Durables 0.3%		
Fortune Brands, Inc.	52,300	**3,784,428**
Media 1.4%		
McGraw-Hill Companies, Inc.	165,600	7,254,936
Omnicom Group, Inc.	171,280	8,140,938
		15,395,874
Multiline Retail 2.4%		
Kohl's Corp.*	214,300	9,814,940
Target Corp.	314,700	15,735,000
		25,549,940
Specialty Retail 2.9%		
Best Buy Co., Inc.	85,700	4,512,105
GameStop Corp. "A"*	186,000	11,552,460
Staples, Inc.	320,065	7,383,900
Tiffany & Co.	158,300	7,286,549
		30,735,014
Textiles, Apparel & Luxury Goods 0.7%		
Coach, Inc.*	239,300	**7,317,794**
Consumer Staples 11.2%		
Beverages 4.0%		
Diageo PLC	586,843	12,616,235
PepsiCo, Inc.	404,725	30,718,627
		43,334,862
Food & Staples Retailing 1.5%		
Shoppers Drug Mart Corp.	121,900	6,578,240
Walgreen Co. (a)	251,200	9,565,696
		16,143,936
Food Products 3.0%		
Dean Foods Co.	401,518	10,383,255
Groupe Danone	127,483	11,444,135
Kellogg Co.	188,000	9,856,840
		31,684,230
Household Products 2.7%		
Colgate-Palmolive Co.	133,240	10,387,390
Procter & Gamble Co.	256,770	18,852,054
		29,239,444
Energy 14.1%		
Energy Equipment & Services 6.4%		
Baker Hughes, Inc.	225,700	18,304,270
Noble Corp.	214,500	12,121,395
Schlumberger Ltd.	291,200	28,645,344
Transocean, Inc.*	66,027	9,451,765
		68,522,774
Oil, Gas & Consumable Fuels 7.7%		
ConocoPhillips	145,760	12,870,608
Devon Energy Corp.	232,600	20,680,466
EOG Resources, Inc.	218,025	19,458,731
Valero Energy Corp.	136,345	9,548,241
XTO Energy, Inc.	398,583	20,471,197
		83,029,243
Financials 5.1%		
Capital Markets 2.5%		
Lehman Brothers Holdings, Inc.	202,800	13,271,232
State Street Corp.	170,570	13,850,284
		27,121,516
Diversified Financial Services 1.3%		
CME Group, Inc.	20,937	**14,362,782**
Insurance 1.3%		
Aflac, Inc.	217,524	**13,623,528**
Health Care 17.2%		
Biotechnology 4.4%		
Celgene Corp.*	170,100	7,860,321
Genentech, Inc.*	240,850	16,153,810
Gilead Sciences, Inc.*	497,720	22,900,097
		46,914,228
Health Care Equipment & Supplies 5.4%		
Baxter International, Inc.	333,300	19,348,065
C.R. Bard, Inc.	111,900	10,608,120
Hologic, Inc.*	45,500	3,123,120
Medtronic, Inc.	300,800	15,121,216
Zimmer Holdings, Inc.*	157,340	10,408,041
		58,608,562
Health Care Providers & Services 2.1%		
Laboratory Corp. of America Holdings*	103,900	7,847,567
UnitedHealth Group, Inc.	245,885	14,310,507
		22,158,074
Life Sciences Tools & Services 1.0%		
Thermo Fisher Scientific, Inc.*	191,500	**11,045,720**
Pharmaceuticals 4.3%		
Abbott Laboratories	218,900	12,291,235
Eli Lilly & Co.	107,000	5,712,730
Johnson & Johnson	423,366	28,238,512
		46,242,477
Industrials 10.7%		
Aerospace & Defense 4.3%		
Goodrich Corp.	150,800	10,647,988
Honeywell International, Inc.	283,500	17,455,095
United Technologies Corp.	231,800	17,741,972
		45,845,055
Electrical Equipment 2.4%		
Emerson Electric Co.	465,900	**26,397,894**
Industrial Conglomerates 1.5%		
General Electric Co.	424,865	**15,749,746**
Machinery 1.6%		
Caterpillar, Inc.	76,900	5,579,864
Parker Hannifin Corp.	161,800	12,185,158
		17,765,022
Road & Rail 0.9%		
Canadian National Railway Co.	213,400	**10,014,862**

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

	Shares	Value ($)
Information Technology 23.2%		
Communications Equipment 2.8%		
Cisco Systems, Inc.*	647,220	17,520,245
QUALCOMM, Inc.	319,400	12,568,390
		30,088,635
Computers & Peripherals 7.6%		
Apple, Inc.*	130,635	25,876,181
Dell, Inc.*	187,800	4,602,978
EMC Corp.*	772,515	14,314,703
Hewlett-Packard Co.	392,900	19,833,592
International Business Machines Corp.	156,000	16,863,600
		81,491,054
Electronic Equipment & Instruments 1.0%		
Mettler-Toledo International, Inc.*	93,000	**10,583,400**
Internet Software & Services 1.4%		
Google, Inc. "A"*	20,725	**14,330,923**
IT Services 2.8%		
Accenture Ltd. "A"	375,700	13,536,471
Fiserv, Inc.*	159,200	8,834,008
Paychex, Inc.	221,300	8,015,486
		30,385,965
Semiconductors & Semiconductor Equipment 2.6%		
Broadcom Corp. "A"*	180,900	4,728,726
Intel Corp.	884,090	23,569,839
		28,298,565
Software 5.0%		
Adobe Systems, Inc.*	311,175	13,296,508
Electronic Arts, Inc.* (a)	171,000	9,988,110
Microsoft Corp.	678,180	24,143,208
VMware, Inc. "A"* (a)	79,100	6,722,709
		54,150,535
Materials 4.3%		
Chemicals		
Ecolab, Inc.	229,500	11,752,695
Monsanto Co.	179,100	20,003,679
Praxair, Inc.	169,300	15,018,603
		46,774,977
Telecommunication Services 1.5%		
Diversified Telecommunication Services 1.0%		
AT&T, Inc.	253,800	**10,547,928**
Wireless Telecommunication Services 0.5%		
American Tower Corp. "A"*	125,000	**5,325,000**
Utilities 0.5%		
Electric Utilities		
Allegheny Energy, Inc.	92,800	**5,903,008**
Total Common Stocks (Cost $684,008,971)		**1,053,392,347**

Securities Lending Collateral 1.5%

Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $16,387,277)	16,387,277	**16,387,277**

Cash Equivalents 2.2%

Cash Management QP Trust, 4.67% (b) (Cost $23,617,585)	23,617,585	**23,617,585**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $724,013,833)†	101.5	**1,093,397,209**
Other Assets and Liabilities, Net	(1.5)	**(16,421,694)**
Net Assets	100.0	**1,076,975,515**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $729,166,719. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $364,230,490. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $382,631,543 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $18,401,053.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $16,099,712 which is 1.5% of net assets.*

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

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

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $684,008,971), including $16,099,712 of securities loaned	$ 1,053,392,347
Investment in Daily Assets Fund Institutional (cost $16,387,277)*	16,387,277
Investment in Cash Management QP Trust (cost $23,617,585)	23,617,585
Total investments, at value (cost $724,013,833)	1,093,397,209
Cash	26,462
Foreign currency, at value (cost $38)	38
Dividends receivable	708,122
Interest receivable	130,388
Receivable for Portfolio shares sold	213,912
Foreign taxes recoverable	61,616
Due from Advisor	16,348
Other assets	25,104
Total assets	1,094,579,199
Liabilities	
Payable for Portfolio shares redeemed	626,816
Payable upon return of securities loaned	16,387,277
Accrued management fee	307,675
Accrued distribution service fee (Class B)	3,321
Other accrued expenses and payables	278,595
Total liabilities	17,603,684
Net assets, at value	**$ 1,076,975,515**
Net Assets Consist of	
Undistributed net investment income	9,689,216
Net unrealized appreciation (depreciation) on:	
Investments	369,383,376
Foreign currency	3,448
Accumulated net realized gain (loss)	(282,377,151)
Paid-in capital	980,276,626
Net assets, at value	**$ 1,076,975,515**
Class A	
Net Asset Value, offering and redemption price per share ($1,058,268,944 ÷ 51,857,448 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 20.41**
Class B	
Net Asset Value, offering and redemption price per share ($18,706,571 ÷ 920,834 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 20.31**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $96,147)	$ 14,923,179
Interest	1,099
Interest — Cash Management QP Trust	825,442
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	116,121
Total Income	15,865,841
Expenses:	
Management fee	4,224,782
Administration fee	1,150,671
Custodian fee	86,687
Distribution service fee (Class B)	121,808
Services to shareholders	3,087
Record keeping fee (Class B)	63,378
Professional fees	60,240
Trustees' fees and expenses	39,685
Reports to shareholders	496,976
Other	37,121
Total expenses before expense reductions	6,284,435
Expense reductions	(131,407)
Total expenses after expense reductions	6,153,028
Net investment income (loss)	**9,712,813**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	108,280,041
Foreign currency	(9,088)
	108,270,953
Change in net unrealized appreciation (depreciation) on:	
Investments	19,838,081
Foreign currency	3,543
	19,841,624
Net gain (loss)	**128,112,577**
Net increase (decrease) in net assets resulting from operations	**$ 137,825,390**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 9,712,813	$ 7,388,043
Net realized gain (loss)	108,270,953	15,481,308
Change in net unrealized appreciation (depreciation)	19,841,624	58,267,822
Net increase (decrease) in net assets resulting from operations	137,825,390	81,137,173
Distributions to shareholders from:		
Net investment income:		
Class A	(6,887,657)	(5,636,032)
Class B	(258,683)	(141,341)
Total distributions	(7,146,340)	(5,777,373)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	22,292,590	16,358,245
Net assets acquired in tax-free reorganization	—	210,765,818
Reinvestment of distributions	6,887,657	5,636,032
Cost of shares redeemed	(225,450,131)	(203,567,867)
Net increase (decrease) in net assets from Class A share transactions	(196,269,884)	29,192,228
Class B		
Proceeds from shares sold	1,548,433	43,601,768
Net assets acquired in tax-free reorganization	—	37,158,118
Reinvestment of distributions	258,683	141,341
Cost of shares redeemed	(97,598,529)	(51,781,199)
Net increase (decrease) in net assets from Class B share transactions	(95,791,413)	29,120,028
Increase (decrease) in net assets	(161,382,247)	133,672,056
Net assets at beginning of period	1,238,357,762	1,104,685,706
Net assets at end of period (including undistributed net investment income of $9,689,216 and $7,131,831, respectively)	**$ 1,076,975,515**	**$ 1,238,357,762**

Other Information		
Class A		
Shares outstanding at beginning of period	62,005,444	61,042,375
Shares sold	1,165,102	949,778
Shares issued in tax-free reorganization	—	11,523,100
Shares issued to shareholders in reinvestment of dividends	362,508	322,982
Shares redeemed	(11,675,606)	(11,832,791)
Net increase (decrease) in Class A shares	(10,147,996)	963,069
Shares outstanding at end of period	**51,857,448**	**62,005,444**
Class B		
Shares outstanding at beginning of period	5,921,673	4,353,863
Shares sold	80,681	2,415,727
Shares issued in tax-free reorganization	—	2,040,472
Shares issued to shareholders in reinvestment of dividends	13,644	8,123
Shares redeemed	(5,095,164)	(2,896,512)
Net increase (decrease) in Class B shares	(5,000,839)	1,567,810
Shares outstanding at end of period	**920,834**	**5,921,673**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$18.24**	**$16.90**	**$15.67**	**$14.59**	**$11.54**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.17[d]	.13[c]	.10	.14	.08
Net realized and unrealized gain (loss)	2.12	1.31	1.29	1.02	3.03
Total from investment operations	2.29	1.44	1.39	1.16	3.11
Less distributions from:					
Net investment income	(.12)	(.10)	(.16)	(.08)	(.06)
Net asset value, end of period	**$20.41**	**$18.24**	**$16.90**	**$15.67**	**$14.59**
Total Return (%)	12.59[b]	8.53[b,c]	8.96[b]	7.99	26.89
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	1,058	1,131	1,031	698	705
Ratio of expenses before expense reductions (%)	.53	.52	.50	.50	.51
Ratio of expenses after expense reductions (%)	.52	.49	.49	.50	.51
Ratio of net investment income (loss) (%)	.86[d]	.73[c]	.61	.98	.61
Portfolio turnover rate (%)	30	16	17	15	13

a *Based on average shares outstanding during the period.*

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

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.007 per share and an increase in the ratio of net investment income of 0.04%. Excluding this non-recurring income, total return would have been 0.03% lower.*

d *Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.03 per share and 0.17% of average daily net assets, respectively.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$18.15**	**$16.81**	**$15.59**	**$14.52**	**$11.49**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.09[d]	.06[c]	.04	.09	.03
Net realized and unrealized gain (loss)	2.12	1.31	1.28	1.01	3.02
Total from investment operations	2.21	1.37	1.32	1.10	3.05
Less distributions from:					
Net investment income	(.05)	(.03)	(.10)	(.03)	(.02)
Net asset value, end of period	**$20.31**	**$18.15**	**$16.81**	**$15.59**	**$14.52**
Total Return (%)	12.18[b]	8.17[b,c]	8.51[b]	7.56	26.51
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	19	107	73	23	15
Ratio of expenses before expense reductions (%)	.94	.91	.89	.88	.87
Ratio of expenses after expense reductions (%)	.90	.86	.86	.88	.87
Ratio of net investment income (loss) (%)	.48[d]	.36[c]	.24	.60	.25
Portfolio turnover rate (%)	30	16	17	15	13

a *Based on average shares outstanding during the period.*

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

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.007 per share and an increase in the ratio of net investment income of 0.04%. Excluding this non-recurring income, total return would have been 0.03% lower.*

d *Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.03 per share and 0.17% of average daily net assets, respectively.*

DWS Global Opportunities VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

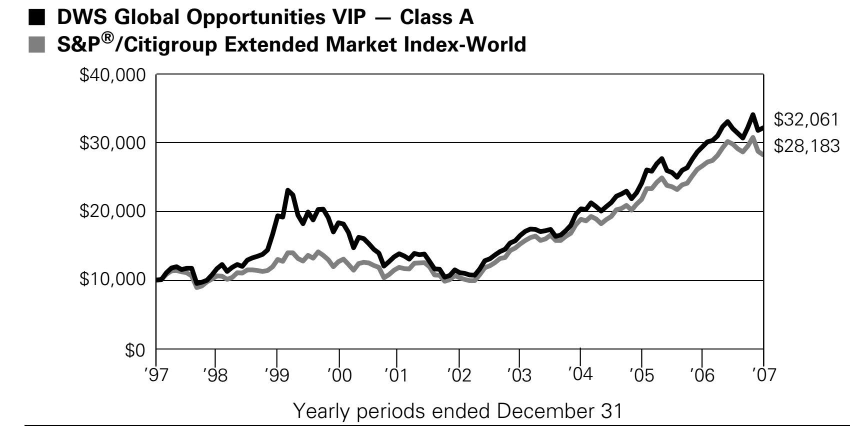
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 1.12% and 1.51% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

Portfolio returns during all periods shown reflect a fee waiver and/or reimbursement. Without this waiver/reimbursement, returns would have been lower.

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.

Growth of an Assumed $10,000 Investment



The S&P®/Citigroup Extended Market Index-World, is an unmanaged index of small-capitalization stocks within 26 countries around the globe.

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

DWS Global Opportunities VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,933	$15,774	$29,008	$32,061
	Average annual total return	9.33%	16.41%	23.74%	12.36%
S&P/Citigroup Extended Market Index-World	Growth of $10,000	$10,605	$14,982	$27,286	$28,183
	Average annual total return	6.05%	14.42%	22.23%	10.92%

DWS Global Opportunities VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,892	$15,673	$28,706	$31,338
	Average annual total return	8.92%	16.16%	23.48%	12.10%
S&P/Citigroup Extended Market Index-World	Growth of $10,000	$10,605	$14,982	$27,286	$28,183
	Average annual total return	6.05%	14.42%	22.23%	10.92%

The growth of $10,000 is cumulative.

Information About Your Portfolio's Expenses

DWS Global Opportunities VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,002.70	$1,000.60
Expenses Paid per $1,000*	$ 5.20	$ 6.86

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,020.01	$1,018.25
Expenses Paid per $1,000*	$ 5.24	$ 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.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series I — DWS Global Opportunities VIP	1.03%	1.36%

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

These tables do not 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.

DWS Global Opportunities VIP

DWS Global Opportunities VIP's Class A shares (unadjusted for contract charges) provided a total return of 9.33% during 2007, outperforming the 6.05% return of the S&P/Citigroup Extended Market Index — World. The portfolio has outpaced both the benchmark and its Lipper peer group average (the Lipper Global Growth category) over the three-, five- and ten-year periods.

Performance benefited from our strong stock selection in the two worst-performing sectors of the market: consumer discretionary and financials. In the former, we gained a boost from positions in Paddy Power PLC and JC Decaux SA. In financials, our holdings in Midland Holdings Ltd., Hellenic Exchanges Holding SA, and Piraeus Bank SA all made substantial gains even as most stocks in the sector were losing ground. Information technology also was a source of strength for the Portfolio. Our positioning was least effective in materials, where a below-benchmark weighting in the sector weighed on returns; and in health care, where Flamel Technologies SA and Sigma Pharmaceuticals Ltd. were notable detractors.

While we believe the uncertainty surrounding the global financial sector warrants a degree of caution, we retain a positive outlook for equities based on supportive central bank policies, strong economic growth in the emerging markets, robust corporate balance sheets, and valuations. We therefore believe the global equity markets will continue to offer a wealth of opportunities for those, like us, who emphasize bottom-up stock selection. We believe the broad nature of the Portfolio's investment universe will enable us to take full advantage of these opportunities in the months and years ahead.

Joseph Axtell, CFA	Terrence S. Gray, CFA
Lead Portfolio Manager	*Portfolio Manager*

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. Derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on an underlying Portfolio's derivative position. Investing in securities of emerging markets 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 S&P/Citigroup Extended Market Index — World is an unmanaged index of small-capitalization stocks within 26 countries around the globe.

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.

The Lipper Global Growth category consists of Portfolios that invest at least 75% of their assets in companies both inside and outside the US with market capitalizations less than the 500th company in the S&P Citigroup World Broad Market Index. Category returns assume reinvestment of dividends. It is not possible to invest directly into a Lipper category.

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Global Opportunities VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	98%	97%
Cash Equivalents	2%	3%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/07**	**12/31/06**
Continental Europe	38%	41%
United States	31%	32%
Pacific Basin	10%	7%
United Kingdom	9%	7%
Japan	6%	7%
Australia	2%	3%
Canada	2%	1%
Latin America	1%	2%
Other	1%	—
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Financials	21%	27%
Information Technology	18%	15%
Industrials	16%	12%
Health Care	16%	17%
Energy	10%	8%
Consumer Discretionary	10%	13%
Utilities	4%	3%
Consumer Staples	3%	2%
Materials	1%	2%
Telecommunication Services	1%	1%
	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 41. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS Global Opportunities VIP

	Shares	Value ($)
Common Stocks 97.7%		
Australia 2.2%		
Babcock & Brown Ltd.	197,948	4,669,002
Sigma Pharmaceuticals Ltd. (a)	1,701,438	2,373,701
(Cost $6,014,805)		**7,042,703**
Bahrain 0.9%		
Gulf Finance House EC (GDR), 144A* (Cost $2,369,925)	94,797	**2,843,910**
Belgium 0.6%		
Hansen Transmissions International NV* (Cost $1,130,986)	318,905	**1,828,260**
Bermuda 0.5%		
Orient-Express Hotels Ltd. "A" (Cost $903,221)	29,300	**1,685,336**
Brazil 1.3%		
Aracruz Celulose SA "B" (ADR) (Preferred)	22,100	1,643,135
Diagnosticos da America SA	130,800	2,684,871
(Cost $3,362,867)		**4,328,006**
Canada 1.9%		
Certicom Corp.*	301,900	483,309
Flint Energy Services Ltd.*	42,000	769,401
OPTI Canada, Inc.*	78,800	1,325,376
SunOpta, Inc.*	258,000	3,444,300
(Cost $6,537,290)		**6,022,386**
China 0.3%		
VanceInfo Technologies, Inc. (ADR)* (Cost $938,400)	110,400	**993,600**
France 3.0%		
Financiere Marc de Lacharriere SA (a)	24,922	1,701,123
Flamel Technologies SA (ADR)* (a)	203,100	2,026,938
Haulotte Group	41,465	1,231,031
JC Decaux SA	98,757	3,869,448
Seche Environnement	4,791	929,210
(Cost $9,592,854)		**9,757,750**
Germany 13.2%		
Compugroup Holding AG*	39,450	728,269
Fresenius Medical Care AG & Co.	174,407	9,329,117
Grenkeleasing AG (a)	40,817	1,361,521
Hypo Real Estate Holding AG (a)	51,140	2,660,496
M.A.X. Automation AG	333,329	2,834,807
Puma AG	3,767	1,497,090
QSC AG* (a)	263,312	1,107,874
Rational AG (a)	12,384	2,533,582
SGL Carbon AG*	28,800	1,548,426
Software AG	25,069	2,201,068
Stada Arzneimittel AG	106,634	6,508,462
United Internet AG (Registered)	278,443	6,712,062
Wincor Nixdorf AG	37,934	3,574,843
(Cost $20,102,498)		**42,597,617**
Greece 5.5%		
Coca-Cola Hellenic Bottling Co. SA	111,000	4,788,682
Hellenic Exchanges Holding SA	101,100	3,542,531
Piraeus Bank SA	208,275	8,113,019

	Shares	Value ($)
Titan Cement Co. SA	26,600	1,209,126
(Cost $6,170,611)		**17,653,358**
Hong Kong 5.3%		
China New Town Development Co., Ltd.*	259,000	106,159
Dah Chong Hong Holdings Ltd.*	265,000	118,128
K Wah International Holdings Ltd.	3,138,000	1,985,486
Kingboard Chemical Holdings Ltd.	936,240	5,471,416
Midland Holdings Ltd.	2,529,557	3,947,847
Wing Hang Bank Ltd.	371,500	5,531,270
(Cost $5,894,570)		**17,160,306**
Ireland 5.7%		
Anglo Irish Bank Corp. PLC	281,388	4,460,233
C&C Group PLC (b)	157,608	952,700
C&C Group PLC (b)	5,663	33,841
FBD Holdings PLC	44,100	1,627,077
ICON PLC (ADR)*	60,700	3,754,902
Kingspan Group PLC	106,776	1,609,229
Paddy Power PLC	111,176	3,657,429
Ryanair Holdings PLC* (b)	2,200	14,757
Ryanair Holdings PLC* (b)	320,632	2,159,207
(Cost $9,646,548)		**18,269,375**
Italy 0.7%		
Lottomatica SpA (a)	39,601	1,436,146
Safilo Group SpA (a)	298,900	993,108
(Cost $3,262,692)		**2,429,254**
Japan 5.4%		
AEON Credit Services Co., Ltd.	90,800	1,342,338
AEON Mall Co., Ltd.	141,000	3,701,115
ANEST IWATA Corp. (a)	60,000	248,629
JAFCO Co., Ltd.	21,900	717,363
KITZ Corp. (a)	170,000	865,028
Matsui Securities Co., Ltd. (a)	162,900	1,283,928
Mitsubishi UFJ Lease & Finance Co., Ltd.	40,710	1,355,486
Nidec Corp.	21,700	1,610,948
Park24 Co., Ltd. (a)	215,000	1,655,695
Sumitomo Realty & Development Co., Ltd.	184,000	4,525,726
(Cost $14,249,659)		**17,306,256**
Korea 0.9%		
Daewoo Shipbuilding & Marine Engineering Co., Ltd. (Cost $810,406)	55,400	**3,050,299**
Netherlands 5.7%		
Arcadis NV	23,735	1,637,482
Chicago Bridge & Iron Co. NV (New York Shares)	117,900	7,125,876
QIAGEN NV* (a)	186,900	4,013,954
SBM Offshore NV	180,283	5,654,924
(Cost $9,254,913)		**18,432,236**
Norway 0.8%		
Electromagnetic GeoServices AS* (a)	33,250	311,156
Prosafe ASA (a)	126,563	2,182,051
(Cost $1,949,746)		**2,493,207**

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

	Shares	Value ($)
Spain 0.5%		
Tecnicas Reunidas SA (Cost $1,481,684)	23,819	**1,510,017**
Sweden 0.9%		
Brostrom AB "B" (a)	144,100	1,100,719
Eniro AB	142,934	1,277,374
Micronic Laser Systems AB* (a)	124,200	614,245
(Cost $3,287,918)		**2,992,338**
Switzerland 1.0%		
Advanced Digital Broadcast Holdings SA (ADB Group) (Registered)*	16,968	477,931
Fortune Management, Inc. (REG S)* (a)	322,568	184,104
Partners Group (Registered)	18,500	2,464,662
(Cost $2,881,879)		**3,126,697**
Taiwan 2.2%		
Powerchip Semiconductor Corp.	2,728,139	1,153,217
Siliconware Precision Industries Co.	2,398,778	4,269,159
Yuanta Financial Holding Co., Ltd.*	2,813,415	1,818,571
(Cost $3,958,906)		**7,240,947**
Thailand 0.6%		
Bangkok Bank PCL (Foreign Registered) (Cost $1,282,718)	515,100	**1,820,880**
United Kingdom 8.9%		
Aegis Group PLC	487,166	1,126,449
ARM Holdings PLC	1,282,844	3,144,895
Ashmore Group PLC	607,215	3,222,281
BlueBay Asset Management PLC (Unit)	270,441	1,897,320
Dicom Group PLC	428,171	1,486,639
John Wood Group PLC	244,680	2,101,247
Lamprell PLC	418,584	3,573,517
Michael Page International PLC	417,695	2,377,966
Serco Group PLC	561,624	5,133,833
Taylor Nelson Sofres PLC	457,309	1,873,936
Xchanging Ltd.*	474,056	2,630,281
(Cost $22,954,159)		**28,568,364**
United States 29.7%		
Advance Auto Parts, Inc.	60,550	2,300,295
Advanced Medical Optics, Inc.*	61,700	1,513,501
Aecom Technology Corp.*	85,968	2,456,106
Aeropostale, Inc.*	106,400	2,819,600
Akamai Technologies, Inc.*	71,000	2,456,600
Allegheny Energy, Inc.	174,200	11,080,862
AMERIGROUP Corp.*	86,300	3,145,635
Carter's, Inc.*	86,800	1,679,580
Celgene Corp.*	46,100	2,130,281
Cogent, Inc.*	99,200	1,106,080
Diamond Foods, Inc.	61,500	1,317,945
Dresser-Rand Group, Inc.*	87,800	3,428,590
EMS Technologies, Inc.*	51,600	1,560,384
Euronet Worldwide, Inc.* (a)	88,400	2,652,000
Foundation Coal Holdings, Inc.	57,500	3,018,750
FTI Consulting, Inc.*	88,650	5,464,386
Gentex Corp.	78,600	1,396,722
Harman International Industries, Inc.	28,700	2,115,477
Invitrogen Corp.*	24,500	2,288,545
Itron, Inc.* (a)	55,100	5,287,947
Joy Global, Inc.	81,775	5,382,430
Lam Research Corp.*	28,100	1,214,763
Metabolix, Inc.*	45,100	1,073,380
Mueller Water Products, Inc. "A" (a)	87,300	831,096
NeuStar, Inc. "A"*	65,400	1,875,672
NxStage Medical, Inc.* (a)	190,400	2,888,368
Owens & Minor, Inc.	62,900	2,668,847
Perficient, Inc.*	82,300	1,295,402
Phillips-Van Heusen Corp.	31,900	1,175,834
Rowan Companies, Inc.	46,900	1,850,674
Schawk, Inc.	87,100	1,351,792
Somanetics Corp.*	96,600	2,284,590
Thoratec Corp.* (a)	117,800	2,142,782
THQ, Inc.*	134,400	3,788,736
Ultra Petroleum Corp.*	96,500	6,899,750
(Cost $59,406,091)		**95,943,402**
Total Common Stocks (Cost $197,445,346)		**315,096,504**

Securities Lending Collateral 10.0%

	Shares	Value ($)
Daily Assets Fund Institutional, 5.03% (c) (d) (Cost $32,318,519)	32,318,519	**32,318,519**

Cash Equivalents 2.1%

	Shares	Value ($)
Cash Management QP Trust, 4.67% (c) (Cost $6,854,864)	6,854,864	**6,854,864**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $236,618,729)†	109.8	**354,269,887**
Other Assets and Liabilities, Net	(9.8)	**(31,773,123)**
Net Assets	100.0	**322,496,764**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $242,614,224. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $111,655,663. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $138,465,710 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $26,810,047.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $30,562,485 which is 9.5% of net assets.*

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

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

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

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

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $197,445,346), including $30,562,485 of securities loaned	$ 315,096,504
Investment in Daily Assets Fund Institutional (cost $32,318,519)*	32,318,519
Investment in Cash Management QP Trust (cost $6,854,864)	6,854,864
Total investments, at value (cost $236,618,729)	354,269,887
Cash	24
Foreign currency, at value (cost $952,317)	967,068
Dividends receivable	179,009
Interest receivable	61,994
Receivable for Portfolio shares sold	16,096
Foreign taxes recoverable	29,354
Other assets	7,890
Total assets	355,531,322
Liabilities	
Payable for investments purchased	131,193
Payable for Portfolio shares redeemed	193,460
Payable upon return of securities loaned	32,318,519
Accrued management fee	222,598
Accrued distribution service fee (Class B)	2,539
Other accrued expenses and payables	166,249
Total liabilities	33,034,558
Net assets, at value	**$ 322,496,764**
Net Assets Consist of	
Accumulated distributions in excess of net investment income	(4,870,687)
Net unrealized appreciation (depreciation) on:	
Investments	117,651,158
Foreign currency	17,645
Accumulated net realized gain (loss)	39,779,834
Paid-in capital	169,918,814
Net assets, at value	**$ 322,496,764**
Class A	
Net Asset Value, offering and redemption price per share ($310,350,488 ÷ 16,980,253 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 18.28**
Class B	
Net Asset Value, offering and redemption price per share ($12,146,276 ÷ 673,793 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 18.03**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $355,569)	$ 4,721,008
Interest	3,912
Interest — Cash Management QP Trust	374,579
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	454,747
Total Income	5,554,246
Expenses:	
Management fee	3,148,776
Administration fee	353,795
Custodian fee	217,318
Distribution service fee (Class B)	53,186
Services to shareholders	1,868
Record keeping fee (Class B)	22,754
Professional fees	69,239
Trustees' fees and expenses	13,307
Reports to shareholders	195,657
Other	41,032
Total expenses before expense reductions	4,116,932
Expense reductions	(86,361)
Total expenses after expense reductions	4,030,571
Net investment income (loss)	**1,523,675**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	41,727,866
Foreign currency (including CPMF tax of $55)	(13,330)
	41,714,536
Change in net unrealized appreciation (depreciation) on:	
Investments	(9,554,056)
Foreign currency	15,531
	(9,538,525)
Net gain (loss)	**32,176,011**
Net increase (decrease) in net assets resulting from operations	**$ 33,699,686**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 1,523,675	$ 491,309
Net realized gain (loss)	41,714,536	39,905,008
Change in net unrealized appreciation (depreciation)	(9,538,525)	26,807,487
Net increase (decrease) in net assets resulting from operations	33,699,686	67,203,804
Distributions to shareholders from:		
Net investment income:		
Class A	(4,162,201)	(3,088,293)
Class B	(385,143)	(323,635)
Net realized gains:		
Class A	(23,747,876)	—
Class B	(2,659,501)	—
Total distributions	(30,954,721)	(3,411,928)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	25,551,412	29,442,382
Reinvestment of distributions	27,910,077	3,088,293
Cost of shares redeemed	(76,124,259)	(44,115,725)
Net increase (decrease) in net assets from Class A share transactions	(22,662,770)	(11,585,050)
Class B		
Proceeds from shares sold	2,661,166	3,685,449
Reinvestment of distributions	3,044,644	323,635
Cost of shares redeemed	(30,666,540)	(7,059,014)
Net increase (decrease) in net assets from Class B share transactions	(24,960,730)	(3,049,930)
Increase (decrease) in net assets	(44,878,535)	49,156,896
Net assets at beginning of period	367,375,299	318,218,403
Net assets at end of period (including accumulated distributions in excess of net investment income of $4,870,687 and $3,290,411, respectively)	**$ 322,496,764**	**$ 367,375,299**

Other Information		
Class A		
Shares outstanding at beginning of period	18,234,839	19,013,655
Shares sold	1,377,801	1,785,621
Shares issued to shareholders in reinvestment of distributions	1,512,741	181,664
Shares redeemed	(4,145,128)	(2,746,101)
Net increase (decrease) in Class A shares	(1,254,586)	(778,816)
Shares outstanding at end of period	**16,980,253**	**18,234,839**
Class B		
Shares outstanding at beginning of period	2,034,192	2,223,191
Shares sold	144,813	227,819
Shares issued to shareholders in reinvestment of distributions	167,013	19,241
Shares redeemed	(1,672,225)	(436,059)
Net increase (decrease) in Class B shares	(1,360,399)	(188,999)
Shares outstanding at end of period	**673,793**	**2,034,192**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$18.15**	**$15.00**	**$12.77**	**$10.38**	**$ 6.97**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.08[d]	.03[c]	.04	.01	.02
Net realized and unrealized gain (loss)	1.61	3.28	2.27	2.41	3.40
Total from investment operations	1.69	3.31	2.31	2.42	3.42
Less distributions from:					
Net investment income	(.23)	(.16)	(.08)	(.03)	(.01)
Net realized gains	(1.33)	—	—	—	—
Total distributions	(1.56)	(.16)	(.08)	(.03)	(.01)
Net asset value, end of period	**$18.28**	**$18.15**	**$15.00**	**$12.77**	**$10.38**
Total Return (%)	9.33[b]	22.08[c]	18.19	23.35	49.09
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	310	331	285	232	183
Ratio of expenses before expense reductions (%)	1.14	1.12	1.17	1.18	1.18
Ratio of expenses after expense reductions (%)	1.12	1.12	1.17	1.18	1.18
Ratio of net investment income (loss) (%)	.45[d]	.16[c]	.32	.09	.28
Portfolio turnover rate (%)	19	28	30	24	41

a Based on average shares outstanding during the period.

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

c Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.002 per share and an increase in the ratio of net investment income of 0.01%. Excluding this non-recurring income, total return would have been 0.01% lower.

d Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.02 per share and 0.09% of average daily net assets, respectively.

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$17.93**	**$14.84**	**$12.62**	**$10.25**	**$ 6.89**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.01[e]	(.00)[b,d]	.03	(.01)	.00[b]
Net realized and unrealized gain (loss)	1.61	3.24	2.24	2.38	3.36
Total from investment operations	1.62	3.24	2.27	2.37	3.36
Less distributions from:					
Net investment income	(.19)	(.15)	(.05)	—	—
Net realized gains	(1.33)	—	—	—	—
Total distributions	(1.52)	(.15)	(.05)	—	—
Net asset value, end of period	**$18.03**	**$17.93**	**$14.84**	**$12.62**	**$10.25**
Total Return (%)	8.92[c]	21.88[c,d]	18.06[c]	23.12[c]	48.77
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	12	37	33	24	13
Ratio of expenses before expense reductions (%)	1.53	1.51	1.54	1.52	1.43
Ratio of expenses after expense reductions (%)	1.50	1.31	1.24	1.39	1.43
Ratio of net investment income (loss) (%)	.07[e]	(.03)[d]	.25	(.12)	.03
Portfolio turnover rate (%)	19	28	30	24	41

a Based on average shares outstanding during the period.

b Amount is less than $.005.

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

d Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.002 per share and an increase in the ratio of net investment income of 0.01%. Excluding this non-recurring income, total return would have been 0.01% lower.

e Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.02 per share and 0.09% of average daily net assets, respectively.

DWS International VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

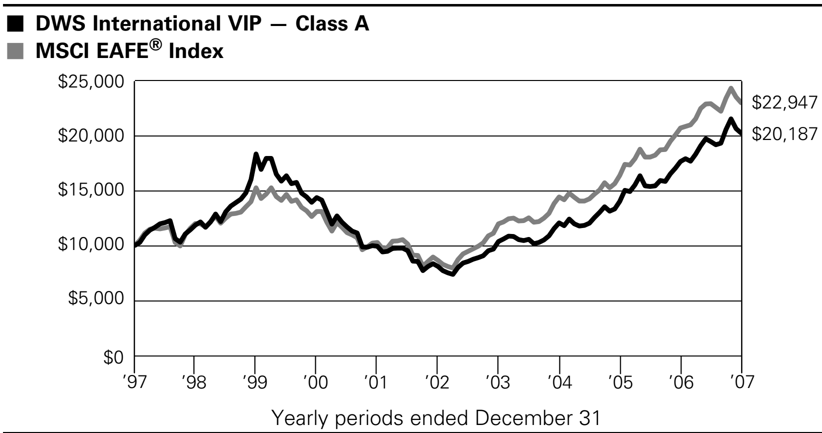
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 0.96% and 1.36% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

Returns for all periods shown for Class B shares reflect a fee waiver and/or reimbursement. Without this waiver/reimbursement, returns would have been lower.

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. Derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on an underlying Portfolio's derivative position. Investing in securities of emerging markets presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment



The Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE®) Index is an unmanaged index that tracks international stock performance in the 21 developed markets in Europe, Australasia and the Far East. The index is calculated using closing local market prices and translates into 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

DWS International VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,459	$16,760	$24,951	$20,187
	Average annual total return	14.59%	18.78%	20.07%	7.28%
MSCI EAFE® Index	Growth of $10,000	$11,117	$15,946	$26,574	$22,947
	Average annual total return	11.17%	16.83%	21.59%	8.66%

DWS International VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,425	$16,584	$24,582	$19,709
	Average annual total return	14.25%	18.37%	19.71%	7.02%
MSCI EAFE® Index	Growth of $10,000	$11,117	$15,946	$26,574	$22,947
	Average annual total return	11.17%	16.83%	21.59%	8.66%

The growth of $10,000 is cumulative.

Information About Your Portfolio's Expenses

DWS International VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,040.20	$1,038.10
Expenses Paid per $1,000*	$ 4.83	$ 6.63
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,020.47	$1,018.70
Expenses Paid per $1,000*	$ 4.79	$ 6.56

* *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
DWS Variable Series I — DWS International VIP	0.94%	1.29%

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

These tables do not 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.

DWS International VIP

International equities performed well during 2007, as measured by the 11.17% US dollar return of the Portfolio's benchmark, MSCI EAFE® Index. The Class A shares of the Portfolio gained 14.59% (unadjusted for contract charges), outperforming the benchmark.

The Portfolio was well-positioned for the environment of the past year via overweights in Europe and the emerging markets, both of which outperformed, along with a large underweight in Japan, the worst performer among all major global markets.[1] Top individual performers included AMEC PLC, the UK-based construction and engineering company; Gazprom, the Russian energy concern; and three German stocks: Bayer AG, Porsche AG, and E.ON AG. Also aiding performance was a position in China Mobile Ltd., which has benefited from rapidly increasing wireless penetration in China. All of the Portfolio's notable detractors were financial stocks: UniCredito Italiano SpA and Banca Italease*, both based in Italy, and several Japanese banks.

We expect 2008 to be a challenging year characterized by slower growth in the world's developed economies. We therefore intend to focus on companies with strong franchises, distinct competitive advantages, and the ability to perform well in any economic environment. We are finding many such companies in the emerging markets, where local growth trends remain strong. Russia, the Middle East, and Africa are areas in which we have been adding in recent months. At the same time, we have reduced the Portfolio's weighting in Europe and have elected not to raise its weighting in Japan. From a broader standpoint, we will continue to use fundamental research to identify opportunities in individual stocks that have been artificially depressed by short-term market volatility.

Matthias Knerr, CFA
Manager

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. Derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on an underlying Portfolio's derivative position. Investing in securities of emerging markets presents certain unique risks not associated with domestic investments, such as currency fluctuation, political and economic changes and market risks. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

The Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE®) Index is an unmanaged index that tracks international stock performance in the 21 developed markets in Europe, Australasia and the Far East. The index is calculated using closing local market prices and translates into 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.

* *As of December 31, 2007, the positions were not held.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS International VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	98%	96%
Preferred Stocks	2%	1%
Cash Equivalents	—	3%
	100%	100%

Geographical Diversification (As a % of Common and Preferred Stocks)	**12/31/07**	**12/31/06**
Continental Europe	53%	55%
United Kingdom	15%	18%
Japan	14%	17%
Pacific Basin	7%	4%
Australia	3%	1%
Middle East	3%	—
Latin America	3%	5%
Other	2%	—
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Financials	22%	33%
Industrials	17%	6%
Consumer Discretionary	14%	16%
Materials	10%	8%
Telecommunication Services	9%	6%
Consumer Staples	7%	6%
Health Care	6%	9%
Energy	5%	6%
Utilities	5%	3%
Information Technology	5%	7%
	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 50. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS International VIP

	Shares	Value ($)
Common Stocks 97.8%		
Australia 3.1%		
Leighton Holdings Ltd. (a)	205,400	10,950,261
QBE Insurance Group Ltd.	274,600	8,001,588
Rio Tinto Ltd.	29,500	3,444,125
(Cost $18,520,122)		**22,395,974**
Austria 1.8%		
Erste Bank der oesterreichischen Sparkassen AG	102,749	7,302,872
Wienerberger AG	98,554	5,444,124
(Cost $12,232,946)		**12,746,996**
Belgium 3.2%		
Fortis	213,734	5,554,351
InBev NV	126,600	10,444,257
KBC Groep NV	46,700	6,522,394
(Cost $19,728,345)		**22,521,002**
Brazil 0.7%		
Redecard SA (GDR) 144A (Cost $4,526,841)	148,500	**4,805,393**
China 0.5%		
China Merchants Bank Co., Ltd. "H" (Cost $3,834,267)	827,500	**3,353,302**
Colombia 0.8%		
Bancolombia SA (ADR) (REG S) (Preferred) (Cost $5,639,432)	161,600	**5,497,632**
Cyprus 1.4%		
Bank of Cyprus PCL (Cost $9,218,633)	540,816	**9,924,968**
Denmark 0.2%		
Rockwool International A/S "B" (Cost $2,126,656)	6,800	**1,567,533**
Egypt 1.5%		
Orascom Construction Industries (GDR) (REG S) (Cost $9,446,319)	52,450	**10,984,023**
Finland 2.6%		
Nokia Oyj	165,300	6,364,785
Nokian Renkaat Oyj	356,810	12,429,508
(Cost $12,178,387)		**18,794,293**
France 3.9%		
Axa	123,265	4,907,961
France Telecom SA	145,626	5,226,060
Societe Generale	29,012	4,146,248
Total SA	100,449	8,336,223
Vallourec SA	19,899	5,356,898
(Cost $23,543,125)		**27,973,390**
Germany 11.9%		
Adidas AG	78,500	5,844,854
Bayer AG	129,492	11,806,372
Daimler AG (Registered)	55,100	5,337,114
E.ON AG	72,568	15,408,061
Fresenius Medical Care AG & Co.	131,382	7,027,688
GEA Group AG*	166,504	5,750,758
Gerresheimer AG*	117,699	6,538,832
Hamburger Hafen- und Logistik AG*	20,700	1,846,131
Linde AG	58,100	7,652,107
Merck KGaA	32,903	4,226,694
Siemens AG (Registered)	87,418	13,723,691
(Cost $56,955,160)		**85,162,302**
Greece 2.7%		
Hellenic Telecommunications Organization SA	266,820	9,806,011
National Bank of Greece SA	136,500	9,403,104
(Cost $9,931,835)		**19,209,115**
Hong Kong 3.8%		
China Mobile Ltd.	279,500	4,843,570
Esprit Holdings Ltd.	995,000	14,736,882
Kingboard Chemical Holdings Ltd.	164,900	963,681
Noble Group Ltd.	1,277,000	2,128,935
Wharf Holdings Ltd.	912,000	4,707,166
(Cost $21,996,808)		**27,380,234**
India 2.5%		
Bharti Airtel Ltd.*	476,201	11,892,211
Housing Development Finance Corp., Ltd.	28,333	2,032,920
Larsen & Toubro Ltd.	16,043	1,687,074
Suzlon Energy Ltd.	38,043	1,869,121
(Cost $15,729,067)		**17,481,326**
Indonesia 1.3%		
PT Telekomunikasi Indonesia (ADR) (Cost $9,784,283)	212,400	**8,922,924**
Italy 1.9%		
UniCredito Italiano SpA (Cost $12,516,419)	1,648,873	**13,722,662**
Japan 13.7%		
Canon, Inc.	291,050	13,298,167
Japan Tobacco, Inc.	3,181	18,861,457
JFE Holdings, Inc.	145,000	7,306,643
Komatsu Ltd.	282,000	7,624,723
Makita Corp.	106,000	4,429,289
Mitsubishi Corp.	307,000	8,362,398
Mitsubishi UFJ Financial Group, Inc.	495,075	4,608,068
Mitsui Fudosan Co., Ltd.	187,000	4,041,432
Nintendo Co., Ltd.	12,600	7,650,061
Sumitomo Corp.	255,000	3,631,022
Sumitomo Heavy Industries Ltd.	529,000	4,860,378
Suzuki Motor Corp.	442,000	13,293,473
(Cost $87,972,725)		**97,967,111**
Kazakhstan 0.8%		
KazMunaiGas Exploration Production (GDR) 144A (Cost $4,356,130)	187,900	**5,824,900**
Korea 0.8%		
Kookmin Bank (Cost $5,645,238)	79,200	**5,821,272**
Mexico 1.6%		
America Movil SAB de CV "L" (ADR)	64,500	3,959,655

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

	Shares	Value ($)
Grupo Financiero Banorte SAB de CV "O"	1,793,100	7,409,436
(Cost $10,793,650)		**11,369,091**
Norway 1.6%		
StatoilHydro ASA (Cost $10,069,591)	367,900	**11,375,174**
Russia 3.7%		
Gazprom (ADR) (b)	61,900	3,509,730
Gazprom (ADR) (b)	170,700	9,612,430
Novorossiysk Sea Trade Port (GDR) 144A*	87,900	1,758,000
Sberbank*	1,616,388	6,744,529
Uralkali (GDR) 144A*	135,800	5,058,550
(Cost $21,067,937)		**26,683,239**
Singapore 0.3%		
Olam International Ltd. (Cost $1,874,843)	933,000	**1,834,130**
Spain 5.6%		
Iberdrola Renovables*	1,489,800	12,306,618
Iberdrola SA	492,725	7,458,913
Industria de Diseno Textil SA	95,700	5,818,747
Telefonica SA	452,960	14,638,403
(Cost $34,049,473)		**40,222,681**
Switzerland 9.8%		
ABB Ltd. (Registered)	249,058	7,180,826
Compagnie Financiere Richemont SA "A" (Unit)	185,482	12,654,397
Julius Baer Holding AG (Registered)	47,273	3,842,521
Lonza Group AG (Registered)	75,803	9,117,719
Nestle SA (Registered)	22,285	10,211,291
Novartis AG (Registered)	227,220	12,378,545
Roche Holding AG (Genusschein)	39,535	6,809,957
Xstrata PLC	115,738	8,149,849
(Cost $53,407,333)		**70,345,105**
United Arab Emirates 1.3%		
DP World Ltd.*	1,832,869	2,181,114
Emaar Properties	1,702,687	6,907,923
(Cost $8,078,095)		**9,089,037**
United Kingdom 14.8%		
3i Group PLC	579,350	11,514,036
AMEC PLC	1,451,207	24,072,086
Anglo American PLC	164,992	9,999,157
BAE Systems PLC	396,834	3,886,452
Croda International PLC	475,322	5,455,081
Greene King PLC	304,237	4,807,565
Intertek Group PLC	294,263	5,769,299
Prudential PLC	604,462	8,496,544
Serco Group PLC	595,748	5,445,762
Standard Chartered PLC	241,485	8,769,947
Tesco PLC	636,237	6,007,791
Vodafone Group PLC	1,295,674	4,828,994
Whitbread PLC	232,104	6,432,838
(Cost $87,919,414)		**105,485,552**
Total Common Stocks (Cost $573,143,074)		**698,460,361**

Preferred Stocks 1.8%

Germany

	Shares	Value ($)
Porsche AG (Cost $8,396,954)	6,529	**13,157,214**

Rights 0.0%

Hong Kong

	Shares	Value ($)
Wharf Holdings Ltd., expiration date 1/8/2008* (Cost $0)	114,000	**156,436**

Securities Lending Collateral 1.2%

	Shares	Value ($)
Daily Assets Fund Institutional, 5.03%(c) (d) (Cost $8,184,100)	8,184,100	**8,184,100**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $589,724,128)†	100.8	**719,958,111**
Other Assets and Liabilities, Net	(0.8)	**(5,786,660)**
Net Assets	100.0	**714,171,451**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $592,700,703. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $127,257,408. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $147,675,305 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $20,417,897.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $7,729,950 which is 1.1% of net assets.*

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

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

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

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

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets		
Investments:		
Investments in securities, at value (cost $581,540,028), including $7,729,950 of securities loaned	$	711,774,011
Investment in Daily Assets Fund Institutional (cost $8,184,100)*		8,184,100
Total investments, at value (cost $589,724,128)		719,958,111
Cash		4,424,760
Foreign currency, at value (cost $3,898,528)		3,908,308
Receivable for investments sold		1,248,419
Dividends receivable		659,833
Interest receivable		48,437
Receivable for Portfolio shares sold		345,070
Foreign taxes recoverable		208,840
Due from Advisor		10,736
Other assets		17,322
Total assets		730,829,836
Liabilities		
Payable for investments purchased		5,239,468
Note payable		1,375,000
Payable for Portfolio shares redeemed		997,607
Payable upon return of securities loaned		8,184,100
Deferred foreign taxes payable		152,816
Accrued management fee		447,777
Accrued distribution and service fee (Class B)		2,294
Other accrued expenses and payables		259,323
Total liabilities		16,658,385
Net assets, at value	**$**	**714,171,451**
Net Assets Consist of		
Undistributed net investment income		7,187,701
Net unrealized appreciation (depreciation) on:		
Investments (net of deferred foreign taxes of $152,816)		130,081,167
Foreign currency		23,434
Accumulated net realized gain (loss)		92,815,850
Paid-in capital		484,063,299
Net assets, at value	**$**	**714,171,451**
Class A		
Net Asset Value, offering and redemption price per share ($701,902,668 ÷ 46,761,118 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**15.01**
Class B		
Net Asset Value, offering and redemption price per share ($12,268,783 ÷ 818,856 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**14.98**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,363,096)	$	17,266,769
Interest		106,904
Interest — Cash Management QP Trust		670,976
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		555,768
Total Income		18,600,417
Expenses:		
Management fee		5,588,748
Administration fee		756,054
Custodian fee		505,569
Distribution service fee (Class B)		64,471
Services to shareholders		2,759
Record keeping fee (Class B)		37,816
Professional fees		76,014
Trustees' fees and expenses		24,604
Reports to shareholders		379,475
Interest expense		19,580
Other		52,448
Total expenses before expense reductions		7,507,538
Expense reductions		(5,056)
Total expenses after expense reductions		7,502,482
Net investment income (loss)		**11,097,935**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments (net of foreign taxes of $11,829)		163,580,567
Foreign currency (net of foreign tax credit of $108,020)		(133,332)
		163,447,235
Change in net unrealized appreciation (depreciation) on:		
Investments (net of deferred foreign taxes of $152,816)		(70,499,536)
Foreign currency		9,243
		(70,490,293)
Net gain (loss)		**92,956,942**
Net increase (decrease) in net assets resulting from operations	**$**	**104,054,877**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 11,097,935	$ 15,259,751
Net realized gain (loss)	163,447,235	105,689,498
Change in net unrealized appreciation (depreciation)	(70,490,293)	32,558,104
Net increase (decrease) in net assets resulting from operations	104,054,877	153,507,353
Distributions to shareholders from:		
Net investment income:		
Class A	(17,645,331)	(11,465,310)
Class B	(1,050,909)	(663,494)
Total distributions	(18,696,240)	(12,128,804)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	64,649,737	71,568,481
Net assets acquired in tax-free reorganization	—	14,831,229
Reinvestment of distributions	17,645,331	11,465,310
Cost of shares redeemed	(163,705,768)	(85,718,829)
Net increase (decrease) in net assets from Class A share transactions	(81,410,700)	12,146,191
Class B		
Proceeds from shares sold	1,213,337	10,863,495
Net assets acquired in tax-free reorganization	—	6,770,201
Reinvestment of distributions	1,050,909	663,494
Cost of shares redeemed	(45,235,722)	(16,697,624)
Net increase (decrease) in net assets from Class B share transactions	(42,971,476)	1,599,566
Increase (decrease) in net assets	(39,023,539)	155,124,306
Net assets at beginning of period	753,194,990	598,070,684
Net assets at end of period (including undistributed net investment income of $7,187,701 and $10,256,171, respectively)	**$ 714,171,451**	**$ 753,194,990**

Other Information		
Class A		
Shares outstanding at beginning of period	52,299,023	51,410,562
Shares sold	4,471,485	5,986,549
Shares issued in tax-free reorganization	—	1,133,856
Shares issued to shareholders in reinvestment of dividends	1,243,505	924,622
Shares redeemed	(11,252,895)	(7,156,566)
Net increase (decrease) in Class A shares	(5,537,905)	888,461
Shares outstanding at end of period	**46,761,118**	**52,299,023**
Class B		
Shares outstanding at beginning of period	3,829,429	3,739,529
Shares sold	84,891	862,789
Shares issued in tax-free reorganization	—	519,174
Shares issued to shareholders in reinvestment of dividends	74,060	53,508
Shares redeemed	(3,169,524)	(1,345,571)
Net increase (decrease) in Class B shares	(3,010,573)	89,900
Shares outstanding at end of period	**818,856**	**3,829,429**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$13.42**	**$10.85**	**$ 9.50**	**$ 8.26**	**$ 6.52**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.21[c]	.28[b]	.15	.09	.09
Net realized and unrealized gain (loss)	1.73	2.51	1.36	1.26	1.70
Total from investment operations	1.94	2.79	1.51	1.35	1.79
Less distributions from:					
Net investment income	(.35)	(.22)	(.16)	(.11)	(.05)
Net asset value, end of period	**$15.01**	**$13.42**	**$10.85**	**$ 9.50**	**$ 8.26**
Total Return (%)	14.59	25.91	16.17	16.53	27.75
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	702	702	558	533	485
Ratio of expenses (%)	.98	.98	1.02	1.04	1.05
Ratio of net investment income (loss) (%)	1.48[c]	2.32[b]	1.59	1.05	1.32
Portfolio turnover rate (%)	108	105	59	73	119

[a] *Based on average shares outstanding during the period.*

[b] *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.11 per share and 0.92% of average daily net assets, respectively.*

[c] *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.05 per share and 0.33% of average daily net assets, respectively.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$13.38**	**$10.82**	**$ 9.48**	**$ 8.24**	**$ 6.50**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.16[d]	.24[c]	.12	.06	.07
Net realized and unrealized gain (loss)	1.73	2.50	1.35	1.27	1.71
Total from investment operations	1.89	2.74	1.47	1.33	1.78
Less distributions from:					
Net investment income	(.29)	(.18)	(.13)	(.09)	(.04)
Net asset value, end of period	**$14.98**	**$13.38**	**$10.82**	**$ 9.48**	**$ 8.24**
Total Return (%)	14.25[b]	25.44[b]	15.71[b]	16.24[b]	27.52
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	12	51	40	35	24
Ratio of expenses before expense reductions (%)	1.41	1.37	1.41	1.38	1.32
Ratio of expenses after expense reductions (%)	1.39	1.36	1.37	1.35	1.32
Ratio of net investment income (loss) (%)	1.07[d]	1.94[c]	1.24	.74	1.05
Portfolio turnover rate (%)	108	105	59	73	119

[a] *Based on average shares outstanding during the period.*

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

[c] *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.11 per share and 0.92% of average daily net assets, respectively.*

[d] *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.05 per share and 0.33% of average daily net assets, respectively.*

DWS Health Care VIP

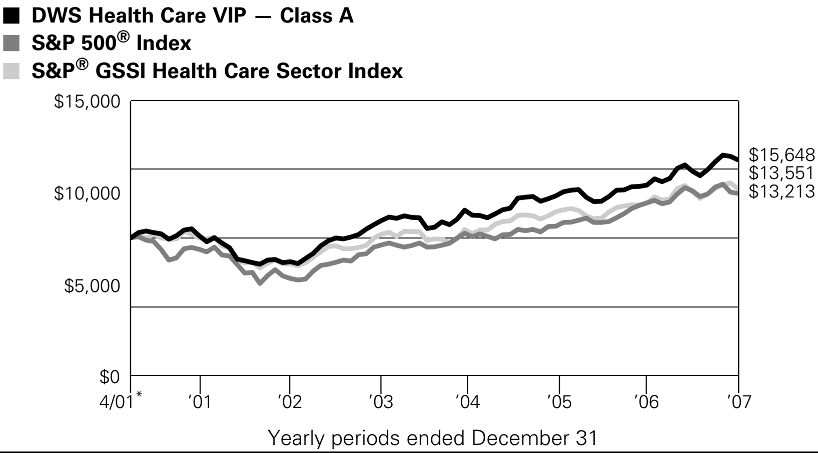
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less then their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 0.89% and 1.28% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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.

Growth of an Assumed $10,000 Investment



The Standard & Poor's® 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The S&P® GSSI Health Care Sector Index is an unmanaged, market capitalization-weighted index of 133 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

DWS Health Care VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$11,320	$13,040	$19,106	$15,648
	Average annual total return	13.20%	9.25%	13.82%	6.93%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$13,213
	Average annual total return	5.49%	8.62%	12.83%	4.27%
S&P GSSI Health Care Sector Index	Growth of $10,000	$10,826	$12,797	$16,756	$13,551
	Average annual total return	8.26%	8.57%	10.87%	4.66%

DWS Health Care VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$11,288	$12,902	$18,762	$18,994
	Average annual total return	12.88%	8.86%	13.41%	12.37%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$16,403
	Average annual total return	5.49%	8.62%	12.83%	9.42%
S&P GSSI Health Care Sector Index	Growth of $10,000	$10,826	$12,797	$16,756	$16,224
	Average annual total return	8.26%	8.57%	10.87%	9.18%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 2001. Index returns began on April 30, 2001.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Health Care VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,056.10	$1,053.40
Expenses Paid per $1,000*	$ 4.72	$ 6.68

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1.020.62	$1,018.70
Expenses Paid per $1,000*	$ 4.63	$ 6.56

* *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**
DWS Variable Series I — DWS Health Care VIP	.91%	1.29%

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

These tables do not 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.

Management Summary

December 31, 2007

DWS Health Care VIP

During a time of uncertainty about the near-term strength of the US economy and increased investor focus on defensive sectors such as health care, DWS Health Care VIP posted a 13.20% return for its most recent fiscal year ended December 31, 2007 (Class A shares, unadjusted for contract charges). In comparison, Portfolio's benchmarks, the S&P 500® Index returned 5.49% and the S&P® GSSI Health Care Sector Index, returned 8.26%.

For the period, several stocks made significant contributions to performance. BioMarin Pharmaceutical, Inc. posted strong gains, as the company submitted its application to the Food and Drug Administration for marketing authorization of its drug Kuvan for the treatment of phenylketonuria, a rare genetic disorder caused by an enzyme deficiency. Covance, Inc., a contract research organization (i.e., a type of company that performs a wide range of research services, including conducting drug trials on a contract basis), performed well, driven by the continued outsourcing trend by pharmaceutical and biotechnology companies. The largest detractors from the fund's comparative performance over the period were underweight positions in Merck & Co., Inc. and Johnson & Johnson.[1] Merck continued to exceed earnings expectations, driven primarily by new product launches and cost containment, and Johnson & Johnson benefited from investors' view of it as a defensive stock given its diversified revenue base.

With the continuing strength of the US economy uncertain, we believe that investors are likely to continue focusing on defensive areas of the market such as health care stocks. However, we are mindful of the risk that news headlines surrounding the upcoming US presidential election may dampen enthusiasm for the sector, as reducing health care costs and increasing access for the uninsured are key priorities for voters and candidates. Longer term, we continue to believe that health care stocks are attractive, based on positive demographic trends and the emergence of new technologies.

Leefin Lai, CFA, CPA
Managing Director and Portfolio Manager

Thomas E. Bucher, CFA
Managing Director and Consultant to the Portfolio

Risk Considerations

This Portfolio is subject to stock market risk. The Portfolio will focus its investments in the industries of the health care sector, thereby increasing its vulnerability to that sector or regulatory development within such sector. 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.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

The Standard & Poor's 500® (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P® GSSI Health Care Sector Index is an unmanaged, market-capitalization-weighted index of 133 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, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Health Care VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Industry Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Pharmaceuticals	31%	35%
Health Care Services	22%	24%
Medical Supply & Specialty	21%	19%
Biotechnology	21%	18%
Life Sciences Equipment	5%	3%
Hospital Management	—	1%
	100%	100%

Asset allocation and industry diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 59. Information concerning portfolio holdings of the Portfolio as of month-end will be posted to www.dws-scudder.com on the or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

DWS Health Care VIP

	Shares	Value ($)
Common Stocks 98.4%		
Health Care 98.4%		
Biotechnology 20.6%		
Alexion Pharmaceuticals, Inc.* (a)	14,300	1,072,929
Amgen, Inc.*	28,350	1,316,574
Amylin Pharmaceuticals, Inc.*	5,200	192,400
Applera Corp. — Celera Group*	76,100	1,207,707
Biogen Idec, Inc.*	28,720	1,634,742
BioMarin Pharmaceutical, Inc.* (a)	46,300	1,639,020
Celgene Corp.*	34,200	1,580,382
Cepheid, Inc.* (a)	35,600	938,060
Gen-Probe, Inc.*	9,400	591,542
Genentech, Inc.*	24,800	1,663,336
Genmab A/S* (a)	8,500	508,783
Genzyme Corp.*	28,400	2,114,096
Gilead Sciences, Inc.*	59,200	2,723,792
Keryx Biopharmaceuticals, Inc.* (a)	27,600	231,840
Medarex, Inc.*	21,400	222,988
Millennium Pharmaceuticals, Inc.*	38,700	579,726
Myriad Genetics, Inc.*	9,900	459,558
Onyx Pharmaceuticals, Inc.*	9,500	528,390
PDL BioPharma, Inc.*	40,500	709,560
Regeneron Pharmaceuticals, Inc.*	30,000	724,500
United Therapeutics Corp.*	5,000	488,250
Vertex Pharmaceuticals, Inc.*	13,600	315,928
		21,444,103
Health Care Services 21.4%		
Aetna, Inc.	29,000	1,674,170
Allscripts Healthcare Solutions, Inc.*	39,100	759,322
Covance, Inc.*	14,100	1,221,342
CVS Caremark Corp.	48,831	1,941,032
Express Scripts, Inc.*	23,200	1,693,600
Fresenius Medical Care AG & Co.	29,197	1,561,762
Henry Schein, Inc.*	22,600	1,387,640
Laboratory Corp. of America Holdings*	21,700	1,639,001
McKesson Corp.	30,800	2,017,708
Medco Health Solutions, Inc.*	15,684	1,590,358
Quality Systems, Inc. (a)	31,100	948,239
Quest Diagnostics, Inc.	28,300	1,497,070
TriZetto Group, Inc.*	29,100	505,467
UnitedHealth Group, Inc.	33,200	1,932,240
WellPoint, Inc.*	20,700	1,816,011
		22,184,962
Life Sciences Equipment 5.5%		
Applera Corp. — Applied Biosystems Group	15,800	535,936
Charles River Laboratories International, Inc.*	8,200	539,560
Pharmaceutical Product Development, Inc.	32,200	1,299,914
Thermo Fisher Scientific, Inc.*	58,200	3,356,976
		5,732,386
Medical Supply & Specialty 20.7%		
Alcon, Inc.	11,000	1,573,440
ArthroCare Corp.* (a)	18,800	903,340
Baxter International, Inc.	48,800	2,832,840
Beckman Coulter, Inc.	8,100	589,680
Becton, Dickinson & Co.	24,500	2,047,710
C.R. Bard, Inc.	28,700	2,720,760
Covidien Ltd.	13,200	584,628
Hologic, Inc.*	31,400	2,155,296
Medtronic, Inc.	56,500	2,840,255
Mentor Corp. (a)	10,800	422,280
NuVasive, Inc.*	24,500	968,240
Respironics, Inc.*	10,500	687,540
SonoSite, Inc.* (a)	14,300	481,481
Stryker Corp.	25,700	1,920,304
Zimmer Holdings, Inc.*	12,100	800,415
		21,528,209
Pharmaceuticals 30.2%		
Abbott Laboratories	45,000	2,526,750
Allergan, Inc.	23,300	1,496,792
Astellas Pharma, Inc.	25,200	1,099,404
Barr Pharmaceuticals, Inc.*	11,600	615,960
Bristol-Myers Squibb Co.	61,300	1,625,676
Cardiome Pharma Corp.* (a)	28,600	255,112
Eli Lilly & Co.	37,300	1,991,447
Forest Laboratories, Inc.*	11,800	430,110
Johnson & Johnson	36,500	2,434,550
Merck & Co., Inc.	45,000	2,614,950
Merck KGaA	11,162	1,433,862
Mylan, Inc. (a)	85,500	1,202,130
Novartis AG (Registered)	20,296	1,105,690
Pfizer, Inc.	78,240	1,778,395
Pharmion Corp.*	8,200	515,452
Roche Holding AG (Genusschein)	16,479	2,838,530
Sanofi-Aventis	14,044	1,283,628
Schering-Plough Corp.	68,400	1,822,176
Shire PLC (ADR)	20,300	1,399,685
Stada Arzneimittel AG	16,297	994,696
Wyeth	42,000	1,855,980
		31,320,975
Total Common Stocks (Cost $71,348,072)		**102,210,635**
Securities Lending Collateral 5.4%		
Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $5,664,522)	5,664,522	**5,664,522**
Cash Equivalents 0.8%		
Cash Management QP Trust, 4.67% (b) (Cost $809,218)	809,218	**809,218**

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

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $ 77,821,812)†	104.6	**108,684,375**
Other Assets and Liabilities, Net	(4.6)	**(4,787,440)**
Net Assets	100.0	**103,896,935**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $78,245,415. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $30,438,960. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $32,581,484 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,142,524.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $5,449,612 which is 5.2% of net assets.*

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

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

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, 2007

Assets		
Investments:		
Investments in securities, at value (cost $71,348,072), including $5,449,612 of securities loaned	$	102,210,635
Investment in Daily Assets Fund Institutional (cost $5,664,522)*		5,664,522
Investment in Cash Management QP Trust (cost $809,218)		809,218
Total investments, at value (cost $77,821,812)		108,684,375
Cash		4,756
Foreign currency, at value (cost $1,001,484)		1,019,553
Dividends receivable		56,336
Interest receivable		6,983
Receivable for Portfolio shares sold		1,441
Foreign taxes recoverable		1,190
Due from Advisor		40,305
Other assets		2,804
Total assets		109,817,743
Liabilities		
Payable for Portfolio shares redeemed		103,594
Payable upon return of securities loaned		5,664,522
Accrued management fee		59,328
Accrued distribution service fee (Class B)		1,182
Other accrued expenses and payables		92,182
Total liabilities		5,920,808
Net assets, at value	**$**	**103,896,935**
Net Assets Consist of		
Undistributed net investment income		254,916
Net unrealized appreciation (depreciation) on:		
Investments		30,862,563
Foreign currency		18,188
Accumulated net realized gain (loss)		14,857,233
Paid-in capital		57,904,035
Net assets, at value	**$**	**103,896,935**
Class A		
Net Asset Value, offering and redemption price per share ($98,470,674 ÷ 6,708,658 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**14.68**
Class B		
Net Asset Value, offering and redemption price per share ($5,426,261 ÷ 376,902 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**14.40**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $41,856)	$	1,130,490
Interest		2,155
Interest — Cash Management QP Trust		80,879
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		50,443
Total Income		1,263,967
Expenses:		
Management fee		745,355
Administration fee		112,083
Custodian fee		20,883
Distribution service fee (Class B)		27,047
Services to shareholders		777
Record keeping fee (Class B)		14,285
Professional fees		62,587
Trustees' fees and expenses		6,689
Reports to shareholders		79,139
Other		22,172
Total expenses before expense reductions		1,091,017
Expense reductions		(197)
Total expenses after expense reductions		1,090,820
Net investment income (loss)		**173,147**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		15,369,597
Foreign currency		81,769
		15,451,366
Change in net unrealized appreciation (depreciation) on:		
Investments		(1,119,422)
Foreign currency		(9,572)
		(1,128,994)
Net gain (loss)		**14,322,372**
Net increase (decrease) in net assets resulting from operations	**$**	**14,495,519**

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

Statement of Changes in Net Assets

	Years Ended December 31,	
Increase (Decrease) in Net Assets	**2007**	**2006**
Operations:		
Net investment income (loss)	$ 173,147	$ (123,883)
Net realized gain (loss)	15,451,366	7,441,060
Change in net unrealized appreciation (depreciation)	(1,128,994)	(72,911)
Net increase (decrease) in net assets resulting from operations	14,495,519	7,244,266
Distributions to shareholders from:		
Net realized gains:		
Class A	(6,096,998)	(391,880)
Class B	(1,254,197)	(84,353)
Total distributions	(7,351,195)	(476,233)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	9,495,145	7,469,837
Reinvestment of distributions	6,096,998	391,880
Cost of shares redeemed	(24,413,031)	(21,696,464)
Net increase (decrease) in net assets from Class A share transactions	(8,820,888)	(13,834,747)
Class B		
Proceeds from shares sold	827,879	2,569,906
Reinvestment of distributions	1,254,197	84,353
Cost of shares redeemed	(18,374,489)	(5,647,967)
Net increase (decrease) in net assets from Class B share transactions	(16,292,413)	(2,993,708)
Increase (decrease) in net assets	(17,968,977)	(10,060,422)
Net assets at beginning of period	121,865,912	131,926,334
Net assets at end of period (including undistributed net investment income of $254,916 and $0, respectively)	**$ 103,896,935**	**$ 121,865,912**

Other Information		
Class A		
Shares outstanding at beginning of period	7,330,897	8,377,800
Shares sold	663,065	565,517
Shares issued to shareholders in reinvestment of distributions	431,188	30,640
Shares redeemed	(1,716,492)	(1,643,060)
Net increase (decrease) in Class A shares	(622,239)	(1,046,903)
Shares outstanding at end of period	**6,708,658**	**7,330,897**
Class B		
Shares outstanding at beginning of period	1,544,881	1,772,301
Shares sold	59,012	201,649
Shares issued to shareholders in reinvestment of distributions	90,295	6,684
Shares redeemed	(1,317,286)	(435,753)
Net increase (decrease) in Class B shares	(1,167,979)	(227,420)
Shares outstanding at end of period	**376,902**	**1,544,881**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$13.77**	**$13.02**	**$12.00**	**$10.95**	**$ 8.19**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.03[c]	(.01)[b]	(.02)	(.03)	(.02)
Net realized and unrealized gain (loss)	1.75	.81	1.04	1.08	2.78
Total from investment operations	1.78	.80	1.02	1.05	2.76
Less distributions from:					
Net realized gains	(.87)	(.05)	—	—	—
Net asset value, end of period	**$14.68**	**$13.77**	**$13.02**	**$12.00**	**$10.95**
Total Return (%)	13.20	6.17[b]	8.50	9.59	33.70
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	98	101	109	109	101
Ratio of expenses (%)	.93	.89	.88	.88	.87
Ratio of net investment income (loss) (%)	.19[c]	(.03)[b]	(.18)	(.29)	(.24)
Portfolio turnover rate (%)	37	47	43	77	64

[a] *Based on average shares outstanding during the period.*

[b] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.02%. Excluding this non-recurring income, total return would have been 0.02% lower.*

[c] *Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.02 per share and 0.13% of average daily net assets, respectively.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$13.55**	**$12.87**	**$11.91**	**$10.91**	**$ 8.19**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.03)[c]	(.06)[b]	(.07)	(.08)	(.07)
Net realized and unrealized gain (loss)	1.75	.79	1.03	1.08	2.79
Total from investment operations	1.72	.73	.96	1.00	2.72
Less distributions from:					
Net realized gains	(.87)	(.05)	—	—	—
Net asset value, end of period	**$14.40**	**$13.55**	**$12.87**	**$11.91**	**$10.91**
Total Return (%)	12.88	5.77[b]	8.06	9.17	33.21
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	5	21	23	20	11
Ratio of expenses (%)	1.34	1.28	1.27	1.27	1.26
Ratio of net investment income (loss) (%)	(.22)[c]	(.42)[b]	(.57)	(.68)	(.63)
Portfolio turnover rate (%)	37	47	43	77	64

[a] *Based on average shares outstanding during the period.*

[b] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.02%. Excluding this non-recurring income, total return would have been 0.02% lower.*

[c] *Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.02 per share and 0.13% of average daily net assets, respectively.*

Notes to Financial Statements

A. Significant Accounting Policies

DWS 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 six diversified portfolios: DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Opportunities VIP, DWS International VIP and DWS Health Care VIP (individually or collectively hereinafter referred to as a "Portfolio" or the "Portfolios"). 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 fees and record keeping fees). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The 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 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.

In September 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. As of December 31, 2007, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

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 issuer of 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 borrower rebates and 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.

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.

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). Each Portfolio may enter into futures contracts to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market.

Upon entering into a futures contract, the 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.

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 gain/appreciation and loss/depreciation on investments.

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. The Portfolio may also engage in forward currency contracts for non-hedging purposes.

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. DWS Bond VIP may enter into mortgage dollar rolls in which the Portfolio sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase similar, but not identical, securities at an agreed upon price and date. During the period between the sale and repurchase, the Portfolio will not be entitled to earn interest and receive principal payment on securities sold. The 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.

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 the securities sold by the Portfolio may decline below the repurchase price of those securities.

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.

Loan Participations and Assignments. DWS Bond VIP may invest in Loan Participations and Assignments. Loan Participations and Assignments are portions of loans originated by banks and sold in pieces to investors. These US dollar-denominated fixed and floating rate loans ("Loans") in which the Portfolio invests, are arranged between the borrower and one or more financial institutions ("Lenders"). These Loans may take the form of Senior Loans, which are corporate obligations often issued in connection with recapitalizations, acquisitions, leveraged buy-outs and refinancings, and Sovereign Loans, which are debt instruments between a foreign sovereign entity and one or more financial institutions. The Portfolio invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of Loans from third parties ("Assignments"). Participations typically result in the Portfolio having a contractual relationship only with the Lender, not with the borrower. The Portfolio has the right to receive payments of principal, interest and any fees to which it is entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Portfolio generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, or any rights of set-off against the borrower, and the Portfolio will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Portfolio assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Portfolio having a direct contractual relationship with the borrower, and the Portfolio may enforce compliance by the borrower with the terms of the loan agreement. All Loan Participations and Assignments involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

Federal Income 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, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares. 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.

At December 31, 2007, 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 Carryforwards ($)	Expiration Date	Capital Loss Carryforwards Utilized ($)
DWS Bond VIP	1,266,000	12/31/2014	494,000
DWS Growth & Income VIP	4,777,000	12/31/2010	5,552,000
DWS Capital Growth VIP	277,224,000	12/31/2008 – 12/31/2012	104,561,000
DWS International VIP	—	—	65,177,000

In addition, from November 1, 2007 through December 31, 2007, DWS Bond VIP and DWS Growth & Income VIP incurred approximately $136,000 and $4,777,000, respectively, 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 ended December 31, 2008.

At December 31, 2007, DWS Growth & Income VIP had a net tax basis capital loss carryforward of approximately $4,777,000 inherited from its merger with SVS Focus Value+Growth Portfolio, which is included in the table above and may be applied against any realized net taxable gains of each succeeding year until fully utilized or December 31, 2010, the expiration date, whichever occurs first, and which may be subject to certain limitations under Sections 382–384 of the Internal Revenue Code.

At December 31, 2007, the DWS Capital Growth VIP had a net tax basis capital loss carryforward of approximately $277,224,000, of which a portion was inherited from its mergers with the SVS Eagle Focused Large Cap Growth Portfolio, Scudder Growth Portfolio, DWS Oak Strategic Equity VIP and DWS Janus Growth Opportunities VIP, and which is included in the table above and may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until the expiration dates, whichever occurs first, and which may be subject to certain limitations under Section 382-384 of the Internal Revenue Code. The DWS Captial Growth VIP utilized approximately $2,550,000 of the inherited amounts, which is included in the table above.

Each Portfolio has reviewed the tax positions for each of the three open tax years as of December 31, 2007 and has determined that no provision for income tax is required in each Portfolio's financial statements. Each of the Portfolio's federal tax returns for the prior three fiscal years remains subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Each Portfolio will declare and distribute dividends from their net investment income, if any, annually, 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 foreign denominated investments, 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, 2007, 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 ($)	Net Unrealized Gain (Loss) on Investments ($)
DWS Bond VIP	10,857,922	—	(1,266,000)	(2,275,293)
DWS Growth & Income VIP	15,690,875	26,213,858	(4,777,000)	8,572,144
DWS Capital Growth VIP	9,689,216	—	(277,224,000)	364,230,490
DWS Global Opportunities VIP	892,809	40,011,833	—	111,655,663
DWS International VIP	7,237,144	95,745,428	—	127,257,408
DWS Health Care VIP	2,976,747	12,559,005	—	30,438,960

In addition, the tax character of distributions paid to shareholders by the Portfolios is summarized as follows:

	Distributions from Ordinary Income ($)* Years Ended December 31,		Distributions from Long-Term Capital Gains ($) Years Ended December 31,	
Portfolio	2007	2006	2007	2006
DWS Bond VIP	10,397,091	8,190,063	—	71,959
DWS Growth & Income VIP	3,685,275	2,951,248	4,265,414	—
DWS Capital Growth VIP	7,146,340	5,777,373	—	—
DWS Global Opportunities VIP	5,220,901	3,411,928	25,733,820	—
DWS International VIP	18,696,240	12,128,804	—	—
DWS Health Care VIP	—	—	7,351,195	476,233

* *For tax purposes short-term capital gains distributions are considered ordinary income distributions.*

Expenses. Expenses of the Series arising in connection with a specific Portfolio are allocated to that Portfolio. Other Series expenses which cannot be directly attributed to a Portfolio are apportioned among the Portfolios in the Series.

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

Other. For each Portfolio, investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the 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. Purchases and Sales of Securities

During the year ended December 31, 2007, purchases and sales of investment securities (excluding short-term investments) were as follows:

Portfolio	Purchases ($)	Sales ($)
DWS Bond VIP		
excluding US Treasury Obligations and mortgage dollar roll transactions	155,502,945	147,170,446
US Treasury Obligations	244,106,190	234,503,948
mortgage dollar roll transactions	20,260,352	21,131,683
DWS Growth & Income VIP	863,989,169	993,674,920
DWS Capital Growth VIP	341,944,646	627,866,923
DWS Global Opportunities VIP	66,200,157	141,601,384
DWS International VIP	799,440,709	907,661,366
DWS Health Care VIP	39,796,671	71,421,766

C. Related Parties

Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the 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 or, for DWS Bond VIP, delegates such responsibility to the Portfolio's subadvisor.

Under the Investment Management Agreement with the Advisor, the Portfolios pay a monthly management fee, based on the average daily net assets of each Portfolio, computed and accrued daily and payable monthly, at the annual rates shown below:

Portfolio	Annual Management Fee Rate
DWS Bond VIP	
first $250 million of average daily net assets	.390%
next $750 million of average daily net assets	.365%
over $1 billion of average daily net assets	.340%
DWS Growth & Income VIP	
first $250 million of average daily net assets	.390%
next $750 million of average daily net assets	.365%
over $1 billion of average daily net assets	.340%
DWS Capital Growth VIP	
first $250 million of average daily net assets	.390%
next $750 million of average daily net assets	.365%
over $1 billion of average daily net assets	.340%
DWS Global Opportunities VIP	
first $500 million of average daily net assets	.890%
next $500 million of average daily net assets	.875%
next $1 billion of average daily net assets	.860%
over $2 billion of average daily net assets	.845%
DWS International VIP	
first $500 million of average daily net assets	.790%
over $500 million of average daily net assets	.640%
DWS Health Care VIP	
first $250 million of average daily net assets	.665%
next $750 million of average daily net assets	.640%
next $1.5 billion of average daily net assets	.615%
next $2.5 billion of average daily net assets	.595%
next $2.5 billion of average daily net assets	.565%
next $2.5 billion of average daily net assets	.555%
next $2.5 billion of average daily net assets	.545%
over $12.5 billion of average daily net assets	.535%

DWS Bond VIP's subadvisor and sub-subadvisor are Aberdeen Asset Management, Inc ('AAMI') and Aberdeen Asset Management Investment Services Limited ('AAMISL'), respectively. AAMI is responsible for the day to day operation of the high-yield and core bond, active fixed-income and high-yield portions of DWS Bond VIP. AAMISL is responsible for the day-to-day management of the foreign securities, foreign currencies and related investments for DWS Bond VIP.

The Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2007 through September 30, 2007 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest, proxy and organizational and offering costs) as follows:

Portfolio	Annual Rate
DWS Bond VIP Class A	.60%
DWS Bond VIP Class B	1.00%
DWS Global Opportunities VIP Class B	1.52%

In addition, the Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class for the period from October 1, 2007 through April 30, 2008 (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) as follows:

Portfolio	Annual Rate
DWS Bond VIP Class B	1.03%

In addition, the Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class for the period from October 1, 2007 through September 30, 2008 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering costs) as follows:

Portfolio	Annual Rate
DWS Bond VIP Class A	.63%
DWS Global Opportunities VIP Class A	.99%
DWS Global Opportunities VIP Class B	1.39%

In addition, the Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2007 through April 30, 2010 (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest and organizational and offering costs) as follows:

Portfolio	Annual Rate
DWS Growth & Income VIP Class A	.54%
DWS Growth & Income VIP Class B	.87%

In addition, the Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2007 through April 30, 2010 (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) as follows:

Portfolio	Annual Rate
DWS Capital Growth VIP Class A	.49%
DWS International VIP Class A	.96%

In addition, the Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class for the period from January 1, 2007 through May 6, 2007 (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering costs) as follows:

Portfolio	Annual Rate
DWS Capital Growth VIP Class B	.86%
DWS International VIP Class B	1.34%

Effective May 7, 2007 through April 30, 2010, the Advisor, the underwriter and accounting agent contractually agreed to waive a portion of their fee to the extent necessary to maintain the operating expenses of each class (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) as follows:

Portfolio	Annual Rate
DWS Capital Growth VIP Class B	.82%
DWS International VIP Class B	1.29%

In addition, for the period from January 1, 2007 through April 27, 2010, the Advisor has contractually agreed to waive 0.01% of the management fee for DWS Growth & Income VIP.

Accordingly, for the year ended December 31, 2007, the Portfolios waived a portion of their management fees as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Annual Effective Rate
DWS Bond VIP	873,517	—	.39%
DWS Growth & Income VIP	1,103,548	28,536	.38%
DWS Capital Growth VIP	4,224,782	118,582	.36%
DWS Global Opportunities VIP	3,148,776	85,694	.87%
DWS International VIP	5,588,748	—	.74%
DWS Health Care VIP	745,355	—	.665%

In addition, for the year ended December 31, 2007, the Advisor waived record keeping expenses of Class B shares of each Portfolio as follows:

Portfolio	Waived
DWS Growth & Income VIP	6,720
DWS Capital Growth VIP	11,147
DWS International VIP	4,736

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Series. For all services provided under the Administrative Services Agreement, each Portfolio pays the Advisor an annual fee ("Administration Fee") of 0.10% of each Portfolio's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2007, the Advisor received an Administration Fee as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2007 ($)
DWS Bond VIP	223,979	19,462
DWS Growth & Income VIP	285,358	19,479
DWS Capital Growth VIP	1,150,671	92,808
DWS Global Opportunities VIP	353,795	27,347
DWS International VIP	756,054	62,378
DWS Health Care VIP	112,083	8,980

Service Provider Fees. DWS Scudder Investments Service Company ("DWS-SISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for the Series. Pursuant to a sub-transfer agency agreement between DWS-SISC and DST Systems, Inc. ("DST"), DWS-SISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DWS-SISC compensates DST out of the shareholder servicing fee it receives from each Portfolio. For the year ended December 31, 2007, the amounts charged to the Portfolios by DWS-SISC were as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Unpaid at December 31, 2007 ($)
DWS Bond VIP Class A	816	—	129
DWS Bond VIP Class B	82	—	23
DWS Growth & Income VIP Class A	732	—	121
DWS Growth & Income VIP Class B	208	208	—
DWS Capital Growth VIP Class A	764	764	—
DWS Capital Growth VIP Class B	187	187	—
DWS Global Opportunities VIP Class A	667	667	—
DWS Global Opportunities VIP Class B	234	—	59
DWS International VIP Class A	1,173	—	276
DWS International VIP Class B	320	320	—
DWS Health Care VIP Class A	308	—	66
DWS Health Care VIP Class B	195	—	43

DWS Scudder Distributors, Inc. ("DWS-SDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DWS-SDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DWS-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.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Portfolios. For the year ended December 31, 2007, the amount charged to the Portfolios by DIMA included in the Statement of Operations under "reports to shareholders" was as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2007 ($)
DWS Bond VIP	11,864	6,436
DWS Growth & Income VIP	7,734	2,490
DWS Capital Growth VIP	8,064	3,694
DWS Global Opportunities VIP	7,024	1,971
DWS International VIP	7,496	2,489
DWS Health Care VIP	9,442	3,602

Trustees' Fees and Expenses. As compensation for his or her services, each Independent Trustee receives an aggregated annual fee, plus a fee for each meeting attended (plus reimbursement for reasonable out-of-pocket expenses incurred in connection with his or her attendance at board and committee meetings) from each Portfolio in the Series for which he or she serves. In addition, the Chairperson of the Board and the Chairperson of each committee of the Board receive additional compensation for their services. Payment of such fees and expenses is allocated among all such Portfolios described above in direct proportion to their relative net assets.

Cash Management QP Trust. Pursuant to an Exemptive Order issued by the SEC, the Series may invest in the 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 Emerging Markets

The DWS Bond VIP, DWS Global Opportunities VIP, DWS International VIP and DWS Health Care VIP may invest 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 or delayed settlements and may have prices more volatile than those of comparable securities of issuers in the United States of America.

E. Fee Reductions

DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP and DWS Health Care VIP 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 custodian expenses. During the year ended December 31, 2007, the custodian fees were reduced as follows:

Portfolio	Custody Credits ($)
DWS Bond VIP	238
DWS Growth & Income VIP	33
DWS Capital Growth VIP	727
DWS Health Care VIP	197

F. Ownership of the Portfolios

At the end of the period, the beneficial ownership in the Portfolios was as follows:

DWS Bond VIP: One participating insurance company was an owner of record of 10% or more of the total outstanding Class A shares of the Portfolio, owning 64%. One participating insurance company was an owner of record owning 100% of the total outstanding Class B shares of the Portfolio.

DWS Growth & Income VIP: Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 31%, 31% and 13%. Two participating insurance companies were owners of record, each owning 76% and 22% of the total outstanding Class B shares of the Portfolio.

DWS Capital Growth VIP: Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 37%, 28% and 12%. One participating insurance company was an owner of record, owning 96% of the total outstanding Class B shares of the Portfolio.

DWS Global Opportunities VIP: Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 59%, 17% and 10%. Two participating insurance companies were owners of record, each owning 61% and 37% of the total outstanding Class B shares of the Portfolio.

DWS International VIP: Two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 33% and 20%. One participating insurance company was an owner of record, owning 93% of the total outstanding Class B shares of the Portfolio.

DWS Health Care VIP: 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 19%. One participating insurance company was an owner of record, owning 100% of the total outstanding Class B shares of the Portfolio.

G. Line of Credit

The Series and other affiliated funds (the "Participants") share in a $750 million revolving credit facility administered by JPMorgan Chase Bank N.A. 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 0.35 percent. Each Portfolio may borrow up to a maximum of 33 percent of its net assets under the agreement.

At December 31, 2007, DWS International VIP had a $1,375,000 outstanding loan. Interest expense incurred on the borrowing was $19,580 for the year ended December 31, 2007. The average dollar amount of the borrowings was $1,558,824, the weighted average interest rate on these borrowings was 5.32% and the Portfolio had a loan outstanding for fifty-one days throughout the period.

H. Acquisition of Assets

On December 8, 2006, the DWS Growth & Income VIP acquired all of the net assets of DWS Large Cap Core VIP (formerly DWS Mercury Large Cap Core VIP) pursuant to a plan of reorganization approved by shareholders on October 31, 2006. The acquisition was accomplished by a tax-free exchange of 508,928 Class B shares of the DWS Large Cap Core VIP, for 509,730 Class B shares of DWS Growth & Income VIP outstanding on December 8, 2006. DWS Large Cap Core VIP's net assets at that date of $5,500,068, including $177,549 of net unrealized appreciation, were combined with those of the DWS Growth & Income VIP. The aggregate net assets of the DWS Growth & Income VIP immediately before the acquisition were $325,496,689. The combined net assets of the DWS Growth & Income VIP immediately following the acquisition were $330,996,757.

On December 8, 2006, the DWS Capital Growth VIP acquired all of the net assets of DWS All Cap Growth VIP (formerly DWS Legg Mason Aggressive Growth VIP), DWS Oak Strategic Equity VIP and DWS Janus Growth Opportunities VIP, pursuant to a plan of reorganization approved by shareholders on October 31, 2006. The acquisition was accomplished by a tax-free exchange of 5,327,555 Class A shares and 1,045,108 Class B shares of the DWS All Cap Growth VIP, 6,755,871 Class A shares and 2,803,513 Class B shares of the DWS Oak Strategic Equity VIP and 14,026,288 Class A shares and 1,103,968 Class B shares of the DWS Janus Growth Opportunities VIP, respectively, for 2,512,311 Class A shares and 485,020 Class B shares, 2,559,770 Class A shares and 1,051,664 Class B shares and 6,451,019 Class A shares and 503,788 of Class B shares of the DWS Capital Growth VIP, respectively, outstanding on December 8, 2006. DWS All Cap Growth VIP, DWS Oak Strategic Equity VIP and DWS Janus Growth Opportunities VIP's net assets at that date of $54,782,162, $65,971,466 and $127,170,308, respectively, including $1,437,117, $1,710,783 and $12,337,292, respectively, of net unrealized appreciation, were combined with those of the DWS Capital Growth VIP. The aggregate net assets of the DWS Capital Growth VIP immediately before the acquisition were $1,004,374,949. The combined net assets of the DWS Capital Growth VIP immediately following the acquisition were $1,252,298,885.

On December 8, 2006, the DWS International VIP acquired all of the net assets of DWS Templeton Foreign Value VIP pursuant to a plan of reorganization approved by shareholders on October 31, 2006. The acquisition was accomplished by a tax-free exchange of 1,450,307 Class A shares and 662,235 Class B shares of the DWS Templeton Foreign Value VIP, respectively, for 1,133,856 Class A shares and 519,174 Class B shares of DWS International VIP, respectively, outstanding on December 8, 2006. DWS Templeton Foreign Value VIP's net assets at that date of $21,601,430, including $761,119 of net unrealized appreciation, were combined with those of the DWS International VIP. The aggregate net assets of the DWS International VIP immediately before the acquisition were $717,923,854. The combined net assets of the DWS International VIP immediately following the acquisition were $739,525,284.

Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of DWS 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 DWS Variable Series I (the "Series") at December 31, 2007 and the results of each of their operations, the changes in each of their net assets, and the financial highlights for each of the periods indicated 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, 2007 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 20, 2008

PricewaterhouseCoopers LLP

Tax Information

(Unaudited)

DWS Global Opportunities VIP, DWS Growth & Income VIP and DWS Health Care VIP paid distributions of $1.30, $0.15 and $0.87 per share, respectively, from net long-term capital gains during its year ended December 31, 2007, of which 100% represents 15% rate gains.

Pursuant to Section 852 of the Internal Revenue Code, DWS Growth & Income VIP, DWS Global Opportunities VIP, DWS International VIP and DWS Health Care VIP designate approximately $28,845,000, $44,063,500, $105,320,000 and $13,836,000, respectively, as capital gain dividends for its year ended December 31, 2007, of which 100% represents 15% rate gains.

For corporate shareholders of DWS Growth & Income VIP and DWS Capital Growth VIP, 100% of their respective income dividends paid during the Portfolios' fiscal year ended December 31, 2007 qualified for the dividends received deduction.

DWS Global Opportunities VIP and DWS International VIP paid foreign taxes of $199,295 and $1,208,335, respectively, and earned $992,552 and $8,523,124, respectively, of foreign source income during the year ended December 31, 2007. Pursuant to Section 853 of the Internal Revenue Code, DWS Global Opportunities VIP and DWS International VIP designate $0.01 and $0.03 per share, respectively, as foreign taxes paid and $0.06 and $0.18 per share, respectively, as income earned from foreign sources for the year ended December 31, 2007.

For federal income tax purposes, DWS Capital Growth VIP and DWS International VIP designate $415,000 and $20,494,000, respectively, or the maximum amount allowable under tax law, as qualified dividend income.

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) 728-3337.

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 — www.dws-scudder.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — 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.

Investment Management Agreement Approval

DWS Bond VIP

The Portfolio's Trustees approved the continuation of the Portfolio's current investment management agreement with DIMA, sub-advisory agreement between DIMA and Aberdeen Asset Management, Inc. ("AAMI") and the sub-sub-advisory agreement between AAMI and Aberdeen Asset Management Investment Services Limited ("Aberdeen IS") in September 2007.

In terms of the process that the Trustees followed prior to approving the agreements, shareholders should know that:

- At the present time, all but one of your Portfolio's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Portfolio's investment management agreement, the Trustees also review the terms of the Portfolio's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2007 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Portfolio's arrangements, that committee recommended that the Board vote to approve the continuation of the Portfolio's investment management agreement and sub-advisory agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants, including the Portfolio's independent fee consultant, in the course of their 2007 review of the Portfolio's contractual arrangements. In particular, the Trustees considered the report prepared by the independent fee consultant in connection with their deliberations.
- The sub-advisory fees paid to AAMI and Aberdeen IS are paid by DIMA out of its fee and not directly by the Portfolio.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Portfolio's Trustees consider these and many other factors, including the quality and integrity of DIMA's, AAMI's and Aberdeen IS's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Portfolio's current investment management agreement and sub-advisory agreement, the Board considered all factors that it believes relevant to the interests of Portfolio shareholders, including:

- **The investment management fee schedule for the Portfolio, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any.)** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the contractual fee rates paid by the Portfolio were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2006). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Portfolio represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Portfolio.

- **The extent to which economies of scale would be realized as the Portfolio grows.** In this regard, the Board noted that the Portfolio's investment management fee schedule includes fee breakpoints. The Board concluded that the Portfolio's fee schedule represents an appropriate sharing between Portfolio shareholders and DIMA of such economies of scale as may exist in the management of the Portfolio at current asset levels.
- **The total operating expenses of the Portfolio.** In this regard, the Board noted that the total (net) operating expenses of the Portfolio (Class A shares) are expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2006, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Portfolio's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Portfolio's total (net) operating expenses would be competitive relative to the applicable Lipper universe.
- **The investment performance of the Portfolio and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that for the one-, three- and five-year periods ended December 31, 2006, the Portfolio's performance (Class A shares) was in the 1st quartile, 1st quartile and 2nd quartile, respectively, of the applicable Lipper universe. The Board also observed that the Portfolio has outperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.
- **The nature, extent and quality of the advisory services provided by DIMA, AAMI and Aberdeen IS.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Portfolio), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement and the sub-advisory agreement, including the scope of services provided under the agreements. In this regard, the Board concluded that the quality and range of services provided by DIMA, AAMI and Aberdeen IS have benefited and should continue to benefit the Portfolio and its shareholders.
- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Portfolio.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2006 from providing investment management services to the Portfolio (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Portfolio. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Portfolio's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Portfolio. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.
- **The practices of DIMA, AAMI and Aberdeen IS regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Portfolio.** The Board considered that a portion of the Portfolio's brokerage may be allocated to affiliates of DIMA, AAMI or Aberdeen IS, subject to compliance with applicable SEC rules. The Board also considered that, subject to ongoing review by the Board, a limited portion of the Portfolio's brokerage may be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client

portfolios. The Board indicated that it would continue to monitor the allocation of the Portfolio's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Portfolio against any costs and liabilities related to lawsuits or regulatory actions arising from allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Portfolio and its shareholders. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Portfolio shareholders and Deutsche Bank's management of one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Portfolio's current investment management agreement and the sub-advisory agreements, and concluded that the continuation of such agreements was in the best interests of the Portfolio's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreements.

DWS Growth & Income VIP

The Portfolio's Trustees approved the continuation of the Portfolio's current investment management agreement with DIMA in September 2007.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At the present time, all but one of your Portfolio's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Portfolio's investment management agreement, the Trustees also review the terms of the Portfolio's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2007 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Portfolio's arrangements, that committee recommended that the Board vote to approve the continuation of the Portfolio's investment management agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants, including the Portfolio's independent fee consultant, in the course of their 2007 review of the Portfolio's contractual arrangements. In particular, the Trustees considered the report prepared by the independent fee consultant in connection with their deliberations.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Portfolio's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Portfolio's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Portfolio shareholders, including:

- **The investment management fee schedule for the Portfolio, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the contractual fee rates paid by the Portfolio were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2006). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Portfolio represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Portfolio.

- **The extent to which economies of scale would be realized as the Portfolio grows.** In this regard, the Board noted that the Portfolio's investment management fee schedule includes fee breakpoints. The Board concluded that the Portfolio's fee schedule represents an appropriate sharing between Portfolio shareholders and DIMA of such economies of scale as may exist in the management of the Portfolio at current asset levels.

- **The total operating expenses of the Portfolio.** In this regard, the Board noted that the total (net) operating expenses of the Portfolio (Class A shares) are expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2006, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Portfolio's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Portfolio's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

- **The investment performance of the Portfolio and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that for the one-, three- and five-year periods ended December 31, 2006, the Portfolio's performance (Class A shares) was in the 3rd quartile, 2nd quartile and 3rd quartile, respectively, of the applicable Lipper universe. The Board also observed that the Portfolio has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Portfolio), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Portfolio and its shareholders.

- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Portfolio.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2006 from providing investment management services to the Portfolio (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Portfolio. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Portfolio's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Portfolio. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Portfolio.** The Board considered that a portion of the Portfolio's brokerage may be allocated to affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also considered that, subject to ongoing review by the Board, a limited portion of the Portfolio's brokerage may be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Portfolio's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.
- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Portfolio against any costs and liabilities related to lawsuits or regulatory actions arising from allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Portfolio and its shareholders. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Portfolio shareholders and Deutsche Bank's management of one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Portfolio's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Portfolio's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

DWS Capital Growth VIP

The Portfolio's Trustees approved the continuation of the Portfolio's current investment management agreement with DIMA in September 2007.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At the present time, all but one of your Portfolio's Trustees are independent of DIMA and its affiliates.

- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Portfolio's investment management agreement, the Trustees also review the terms of the Portfolio's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2007 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Portfolio's arrangements, that committee recommended that the Board vote to approve the continuation of the Portfolio's investment management agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants, including the Portfolio's independent fee consultant, in the course of their 2007 review of the Portfolio's contractual arrangements. In particular, the Trustees considered the report prepared by the independent fee consultant in connection with their deliberations.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Portfolio's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Portfolio's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Portfolio shareholders, including:

- **The investment management fee schedule for the Portfolio, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the contractual fee rates paid by the Portfolio were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2006). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Portfolio represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Portfolio.

- **The extent to which economies of scale would be realized as the Portfolio grows.** In this regard, the Board noted that the Portfolio's investment management fee schedule includes fee breakpoints. The Board concluded that the Portfolio's fee schedule represents an appropriate sharing between Portfolio shareholders and DIMA of such economies of scale as may exist in the management of the Portfolio at current asset levels.

- **The total operating expenses of the Portfolio.** In this regard, the Board noted that the total (net) operating expenses of the Portfolio (Class A shares) are expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2006, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Portfolio's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Portfolio's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

- **The investment performance of the Portfolio and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that for each of the one-, three- and five-year periods ended December 31, 2006, the Portfolio's performance (Class A shares) was in the 2nd quartile of the applicable Lipper universe. The Board also observed that the Portfolio has underperformed its benchmark in the each of the one-, three- and five-year periods ended December 31, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.
- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Portfolio), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Portfolio and its shareholders.
- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Portfolio.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2006 from providing investment management services to the Portfolio (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Portfolio. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Portfolio's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Portfolio. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.
- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Portfolio.** The Board considered that a portion of the Portfolio's brokerage may be allocated to affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also considered that, subject to ongoing review by the Board, a limited portion of the Portfolio's brokerage may be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Portfolio's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.
- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Portfolio against any costs and liabilities related to lawsuits or regulatory actions arising from allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the

Portfolio and its shareholders. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Portfolio shareholders and Deutsche Bank's management of one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Portfolio's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Portfolio's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

DWS Global Opportunities VIP

The Portfolio's Trustees approved the continuation of the Portfolio's current investment management agreement with DIMA in September 2007.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At the present time, all but one of your Portfolio's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Portfolio's investment management agreement, the Trustees also review the terms of the Portfolio's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2007 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Portfolio's arrangements, that committee recommended that the Board vote to approve the continuation of the Portfolio's investment management agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants, including the Portfolio's independent fee consultant, in the course of their 2007 review of the Portfolio's contractual arrangements. In particular, the Trustees considered the report prepared by the independent fee consultant in connection with their deliberations.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Portfolio's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Portfolio's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Portfolio shareholders, including:

- **The investment management fee schedule for the Portfolio, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the contractual fee rates paid by the Portfolio were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2006). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Portfolio represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Portfolio.

- **The extent to which economies of scale would be realized as the Portfolio grows.** In this regard, the Board noted that the Portfolio's investment management fee schedule includes fee breakpoints. The Board concluded that the Portfolio's fee schedule represents an appropriate sharing between Portfolio shareholders and DIMA of such economies of scale as may exist in the management of the Portfolio at current asset levels.
- **The total operating expenses of the Portfolio.** In this regard, the Board noted that the total (net) operating expenses of the Portfolio (Class A shares) are expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2006, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Portfolio's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Portfolio's total (net) operating expenses would be competitive relative to the applicable Lipper universe.
- **The investment performance of the Portfolio and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that for each of the one-, three- and five-year periods ended December 31, 2006, the Portfolio's performance (Class A shares) was in the 1st quartile of the applicable Lipper universe. The Board also observed that the Portfolio has outperformed its benchmark in the three-year period ended December 31, 2006 and has underperformed its benchmark in the one- and five-year periods ended December 31, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.
- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Portfolio), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Portfolio and its shareholders.
- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Portfolio.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2006 from providing investment management services to the Portfolio (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Portfolio. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Portfolio's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Portfolio. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.
- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Portfolio.** The Board considered that a portion of the Portfolio's brokerage may be allocated to affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also considered

that, subject to ongoing review by the Board, a limited portion of the Portfolio's brokerage may be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Portfolio's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Portfolio against any costs and liabilities related to lawsuits or regulatory actions arising from allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Portfolio and its shareholders. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Portfolio shareholders and Deutsche Bank's management of one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Portfolio's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Portfolio's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

DWS International VIP

The Portfolio's Trustees approved the continuation of the Portfolio's current investment management agreement with DIMA in September 2007.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At the present time, all but one of your Portfolio's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Portfolio's investment management agreement, the Trustees also review the terms of the Portfolio's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2007 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Portfolio's arrangements, that committee recommended that the Board vote to approve the continuation of the Portfolio's investment management agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants, including the Portfolio's independent fee consultant, in the course of their 2007 review of the Portfolio's contractual arrangements. In particular, the Trustees considered the report prepared by the independent fee consultant in connection with their deliberations.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Portfolio's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Portfolio's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Portfolio shareholders, including:

- **The investment management fee schedule for the Portfolio, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the contractual fee rates paid by the Portfolio were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2006). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Portfolio represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Portfolio.

- **The extent to which economies of scale would be realized as the Portfolio grows.** In this regard, the Board noted that the Portfolio's investment management fee schedule includes fee breakpoints. The Board concluded that the Portfolio's fee schedule represents an appropriate sharing between Portfolio shareholders and DIMA of such economies of scale as may exist in the management of the Portfolio at current asset levels.

- **The total operating expenses of the Portfolio.** In this regard, the Board noted that the total (net) operating expenses of the Portfolio (Class A shares) are expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2006, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Portfolio's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Portfolio's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

- **The investment performance of the Portfolio and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that for the one-, three- and five-year periods ended December 31, 2006, the Portfolio's performance (Class A shares) was in the 2nd quartile, 2nd quartile and 3rd quartile, respectively, of the applicable Lipper universe. The Board also observed that the Portfolio has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Portfolio), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Portfolio and its shareholders.

- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Portfolio.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during

2006 from providing investment management services to the Portfolio (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Portfolio. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Portfolio's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Portfolio. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.

- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Portfolio.** The Board considered that a portion of the Portfolio's brokerage may be allocated to affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also considered that, subject to ongoing review by the Board, a limited portion of the Portfolio's brokerage may be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Portfolio's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.
- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Portfolio against any costs and liabilities related to lawsuits or regulatory actions arising from allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the Portfolio and its shareholders. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Portfolio shareholders and Deutsche Bank's management of one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Portfolio's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Portfolio's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

DWS Health Care VIP

The Portfolio's Trustees approved the continuation of the Portfolio's current investment management agreement with DIMA in September 2007.

In terms of the process that the Trustees followed prior to approving the agreement, shareholders should know that:

- At the present time, all but one of your Portfolio's Trustees are independent of DIMA and its affiliates.
- The Trustees meet frequently to discuss fund matters. Each year, the Trustees dedicate part or all of several meetings to contract review matters. In connection with reviewing the Portfolio's investment management agreement, the Trustees also review the terms of the Portfolio's Rule 12b-1 plan, distribution agreement, administration agreement, transfer agency agreement and other material service agreements.
- In connection with the Board's 2007 contract review, the Board formed a special committee to facilitate careful review of the funds' contractual arrangements. After reviewing the Portfolio's arrangements, that committee recommended that the Board vote to approve the continuation of the Portfolio's investment management agreement.
- The Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Trustees were also advised by two consultants, including the Portfolio's independent fee consultant, in the course of their 2007 review of the Portfolio's contractual arrangements. In particular, the Trustees considered the report prepared by the independent fee consultant in connection with their deliberations.

The Trustees believe that a long-term relationship with a capable, conscientious advisor is in the best interest of shareholders. As you may know, DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Trustees believe that there are significant advantages to being part of a global asset management business that offers a wide range of investing expertise and resources, including hundreds of portfolio managers and analysts with research capabilities in many countries throughout the world.

Shareholders may focus primarily on fund performance and fees, but the Portfolio's Trustees consider these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

In determining to approve the continuation of the Portfolio's current investment management agreement, the Board considered all factors that it believes relevant to the interests of Portfolio shareholders, including:

- **The investment management fee schedule for the Portfolio, including (i) comparative information provided by Lipper regarding investment management fee rates paid to other investment advisors by similar funds and (ii) fee rates paid to DIMA by similar funds and institutional accounts advised by DIMA (if any).** With respect to management fees paid to other investment advisors by similar funds, the Trustees noted that the contractual fee rates paid by the Portfolio were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2006). The Board gave a lesser weight to fees paid by similar institutional accounts advised by DIMA, in light of the material differences in the scope of services provided to mutual funds as compared to those provided to institutional accounts. Taking into account the foregoing, the Board concluded that the fee schedule in effect for the Portfolio represents reasonable compensation in light of the nature, extent and quality of the investment services being provided to the Portfolio.

- **The extent to which economies of scale would be realized as the Portfolio grows.** In this regard, the Board noted that the Portfolio's investment management fee schedule includes fee breakpoints. The Board concluded that the Portfolio's fee schedule represents an appropriate sharing between Portfolio shareholders and DIMA of such economies of scale as may exist in the management of the Portfolio at current asset levels.

- **The total operating expenses of the Portfolio.** In this regard, the Board noted that the total (net) operating expenses of the Portfolio (Class A shares) are expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2006, and in each case analyzing Class A expenses less any applicable distribution and/or service plan expenses). The Board considered the expenses of this class to be representative for purposes of evaluating other classes of shares. The Board also considered how the Portfolio's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size).

- **The investment performance of the Portfolio and DIMA, both absolute and relative to various benchmarks and industry peer groups.** The Board noted that for the one-, three- and five-year periods ended December 31, 2006, the Portfolio's performance (Class A shares) was in the 3rd quartile, 3rd quartile and 2nd quartile, respectively, of the applicable Lipper universe. The Board also observed that the Portfolio has outperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2006. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.
- **The nature, extent and quality of the advisory services provided by DIMA.** The Board considered extensive information regarding DIMA, including DIMA's personnel (including particularly those personnel with responsibilities for providing services to the Portfolio), resources, policies and investment processes. The Board also considered the terms of the current investment management agreement, including the scope of services provided under the agreement. In this regard, the Board concluded that the quality and range of services provided by DIMA have benefited and should continue to benefit the Portfolio and its shareholders.
- **The costs of the services to, and profits realized by, DIMA and its affiliates from their relationships with the Portfolio.** The Board reviewed information concerning the costs incurred and profits realized by DIMA during 2006 from providing investment management services to the Portfolio (and, separately, to the entire DWS Scudder fund complex), and reviewed with DIMA the cost allocation methodology used to determine DIMA's profitability. In analyzing DIMA's costs and profits, the Board also reviewed the fees paid to and services provided by DIMA and its affiliates with respect to administrative services, transfer agent services, shareholder servicing and distribution (including fees paid pursuant to 12b-1 plans), as well as information regarding other possible benefits derived by DIMA and its affiliates as a result of DIMA's relationship with the Portfolio. As part of this review, the Board considered information provided by an independent accounting firm engaged to review DIMA's cost allocation methodology and calculations. The Board concluded that the Portfolio's investment management fee schedule represented reasonable compensation in light of the costs incurred by DIMA and its affiliates in providing services to the Portfolio. The Board also reviewed information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the DWS Scudder fund complex (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available.
- **The practices of DIMA regarding the selection and compensation of brokers and dealers executing portfolio transactions for the Portfolio.** The Board considered that a portion of the Portfolio's brokerage may be allocated to affiliates of DIMA, subject to compliance with applicable SEC rules. The Board also considered that, subject to ongoing review by the Board, a limited portion of the Portfolio's brokerage may be allocated to brokers who acquire (and provide to DIMA and its affiliates) research services from third parties that are generally useful to DIMA and its affiliates in managing client portfolios. The Board indicated that it would continue to monitor the allocation of the Portfolio's brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.
- **DIMA's commitment to and record of compliance, including its written compliance policies and procedures.** In this regard, the Board considered DIMA's commitment to indemnify the Portfolio against any costs and liabilities related to lawsuits or regulatory actions arising from allegations regarding market timing, revenue sharing, fund valuation or other subjects arising from or relating to pending regulatory inquiries. The Board also considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's chief compliance officer; (ii) the large number of compliance personnel who report to DIMA's chief compliance officer; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.
- **Deutsche Bank's commitment to its US mutual fund business.** The Board considered recent and ongoing efforts by Deutsche Bank to restructure its US mutual fund business to improve efficiency and competitiveness and to reduce compliance and operational risk. The Board considered assurances received from Deutsche Bank that it would commit the resources necessary to maintain high-quality services to the

Portfolio and its shareholders. The Board also considered Deutsche Bank's strategic plans for its US mutual fund business, the potential benefits to Portfolio shareholders and Deutsche Bank's management of one of Europe's most successful fund groups.

Based on all of the foregoing, the Board determined to continue the Portfolio's current investment management agreement, and concluded that the continuation of such agreement was in the best interests of the Portfolio's shareholders.

In reaching this conclusion the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, many of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Trustees may have weighed these factors differently in reaching their individual decisions to approve the continuation of the current agreement.

Summary of Management Fee Evaluation by Independent Fee Consultant

October 26, 2007

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Scudder Funds. My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2007, including my qualifications, the evaluation process for each of the DWS Scudder Funds, consideration of certain complex-level factors, and my conclusions.

Qualifications

For more than 30 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past several years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University; and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds, serve on the board of directors of a private market research company, and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Scudder Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 136 Fund portfolios in the DWS Scudder Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper, Strategic Insight, and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.

The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Scudder Fund. These similar products included the other DWS Scudder Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Scudder Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Scudder funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Scudder Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Scudder Funds are reasonable.

Thomas H. Mack

Thomas H. Mack

Trustees and Officers

The following table presents certain information regarding the Board Members and Officers of the Trust as of December 31, 2007. Each Board Member's year of birth is set forth in parentheses after his or her name. Unless otherwise noted, (i) each Board Member 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 Independent Board Member is c/o Dawn-Marie Driscoll, PO Box 100176, Cape Coral, FL 33904. The term of office for each Board Member is until the election and qualification of a successor, or until such Board Member sooner dies, resigns, is removed or as otherwise provided in the governing documents of the fund. Because the fund does not hold an annual meeting of shareholders, each Board Member will hold office for an indeterminate period. The Board Members may also serve in similar capacities with other funds in the fund complex.

Independent Board Members

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Dawn-Marie Driscoll (1946) Chairperson since 2004 Board Member since 1987	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: Trustee of eight open-end mutual funds managed by Sun Capital Advisers, Inc. (since 2007); Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley College; Trustee, Southwest Florida Community Foundation (charitable organization). Former Directorships: Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	76
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Becton Dickinson and Company[1] (medical technology company); Belo Corporation[1] (media company); Boston Museum of Science; Public Radio International. Former Directorships: American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	76
Keith R. Fox (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private equity funds). Directorships: Progressive Holding Corporation (kitchen goods importer and distributor); Natural History, Inc. (magazine publisher); Box Top Media Inc. (advertising); The Kennel Shop (retailer)	76
Kenneth C. Froewiss (1945) Board Member since 2005	Clinical Professor of Finance, NYU Stern School of Business (1997–present); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	76
Martin J. Gruber (1937) Board Member since 2006	Nomura Professor of Finance, Leonard N. Stern School of Business, New York University (since September 1965); Director, Japan Equity Fund, Inc. (since January 1992), Thai Capital Fund, Inc. (since January 2000), Singapore Fund, Inc. (since January 2000), National Bureau of Economic Research (since January 2006). Formerly, Trustee, TIAA (pension funds) (January 1996–January 2000); Trustee, CREF and CREF Mutual Funds (January 2000–March 2005); Chairman, CREF and CREF Mutual Funds (February 2004–March 2005); and Director, S.G. Cowen Mutual Funds (January 1985–January 2001)	76
Richard J. Herring (1946) Board Member since 2006	Jacob Safra Professor of International Banking and Professor, Finance Department, The Wharton School, University of Pennsylvania (since July 1972); Co-Director, Wharton Financial Institutions Center (since July 2000); Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007). Formerly, Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	76
Graham E. Jones (1933) Board Member since 2006	Senior Vice President, BGK Realty, Inc. (commercial real estate) (since 1995). Formerly, Trustee of various investment companies managed by Sun Capital Advisors, Inc. (1998–2005), Morgan Stanley Asset Management (1985–2001) and Weiss, Peck and Greer (1985–2005)	76
Rebecca W. Rimel (1951) Board Member since 2006	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to present); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001 to present). Formerly, Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Director, Viasys Health Care[1] (January 2007–June 2007)	76
William N. Searcy, Jr. (1946) Board Member since 2006	Private investor since October 2003; Trustee of eight open-end mutual funds managed by Sun Capital Advisers, Inc. (since October 1998). Formerly, Pension & Savings Trust Officer, Sprint Corporation[1] (telecommunications) (November 1989–September 2003)	76

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; Service Source, Inc. Former Directorships: Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	76
Carl W. Vogt (1936) Board Member since 2002	Retired Senior Partner, Fulbright & Jaworski, L.L.P. (law firm); formerly, President (interim) of Williams College (1999–2000); formerly, President of 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). Former Directorships: ISI Family of Funds (registered investment companies, four funds overseen); National Railroad Passenger Corporation (Amtrak); Waste Management, Inc. (solid waste disposal). Formerly, Chairman and Member, National Transportation Safety Board	74

Interested Board Member

Name, Year of Birth, Position with the Fund and Length of Time Served	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Axel Schwarzer[2] (1958) Board Member since 2006	Managing Director[4], Deutsche Asset Management; Head of Deutsche Asset Management Americas; CEO of DWS Scudder; formerly, board member of DWS Investments, Germany (1999–2005); formerly, Head of Sales and Product Management for the Retail and Private Banking Division of Deutsche Bank in Germany (1997–1999); formerly, various strategic and operational positions for Deutsche Bank Germany Retail and Private Banking Division in the field of investment funds, tax driven instruments and asset management for corporates (1989–1996)	82

Officers[3]

Name, Year of Birth, Position with the Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Michael G. Clark[5] (1965) President, 2006–present	Managing Director[4], Deutsche Asset Management (2006–present); President of DWS family of funds; Director, ICI Mutual Insurance Company (since October 2007); formerly, Director of Fund Board Relations (2004–2006) and Director of Product Development (2000–2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999–2000)
John Millette[6] (1962) Vice President and Secretary, 1999–present	Director[4], Deutsche Asset Management
Paul H. Schubert[5] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[4], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Patricia DeFilippis[5] (1963) Assistant Secretary, 2005–present	Vice President, Deutsche Asset Management (since June 2005); formerly, Counsel, New York Life Investment Management LLC (2003–2005); legal associate, Lord, Abbett & Co. LLC (1998–2003)
Elisa D. Metzger[5] (1962) Assistant Secretary 2005–present	Director[4], Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999–2005)
Caroline Pearson[6] (1962) Assistant Secretary, 1997–present	Managing Director[4], Deutsche Asset Management
Paul Antosca[6] (1957) Assistant Treasurer, 2007–present	Director[4], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[6] (1967) Assistant Treasurer, 2007–present	Director[4], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Kathleen Sullivan D'Eramo[6] (1957) Assistant Treasurer, 2003–present	Director[4], Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Diane Kenneally[6] (1966) Assistant Treasurer, 2007–present	Director[4], Deutsche Asset Management
Jason Vazquez[4] (1972) Anti-Money Laundering Compliance Officer, 2007–present	Vice President, Deutsche Asset Management (since 2006); formerly, AML Operations Manager for Bear Stearns (2004–2006), Supervising Compliance Principal and Operations Manager for AXA Financial (1999–2004)
Robert Kloby[5] (1962) Chief Compliance Officer, 2006–present	Managing Director[4], Deutsche Asset Management (2004–present); formerly, Chief Compliance Officer/Chief Risk Officer, Robeco USA (2000–2004); Vice President, The Prudential Insurance Company of America (1988–2000); E.F. Hutton and Company (1984–1988)
J. Christopher Jackson[5] (1951) Chief Legal Officer, 2006–present	Director[4], Deutsche Asset Management (2006–present); formerly, Director, Senior Vice President, General Counsel and Assistant Secretary, Hansberger Global Investors, Inc. (1996–2006); Director, National Society of Compliance Professionals (2002–2005) (2006–2009)

1 *A publicly held company with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.*

2 *The mailing address of Axel Schwarzer is c/o Deutsche Investment Management Americas Inc., 345 Park Avenue, New York, New York 10154. Mr. Schwarzer is an interested Board Member by virtue of his positions with Deutsche Asset Management.*

3 *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.*

4 *Executive title, not a board directorship.*

5 *Address: 345 Park Avenue, New York, New York 10154.*

6 *Address: Two International Place, Boston, MA 02110.*

The fund's Statement of Additional Information ("SAI") includes additional information about the Board Members. 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: (800) 621-1048.

Notes

DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS 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.

This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

DWS Scudder Distributors, Inc.
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(800) 778-1482

VS1-2 (53318 2/08)

DWS SCUDDER
Deutsche Bank Group

DECEMBER 31, 2007

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Balanced VIP

DWS Blue Chip VIP

DWS Core Fixed Income VIP

DWS Davis Venture Value VIP

DWS Dreman High Return Equity VIP

DWS Dreman Small Mid Cap Value VIP

DWS Global Thematic VIP

DWS Government & Agency Securities VIP

DWS High Income VIP

DWS International Select Equity VIP

DWS Janus Growth & Income VIP

DWS Large Cap Value VIP

DWS Mid Cap Growth VIP

DWS Money Market VIP

DWS Small Cap Growth VIP

DWS Strategic Income VIP

DWS Technology VIP

DWS Turner Mid Cap Growth VIP

ONE GLOBAL FORCE. ONE FOCUS. YOU.

DWS SCUDDER

Deutsche Bank Group

Contents

Information About Your Portfolio's Expenses, Management Summary, Portfolio Summary, Investment Portfolio, Financial Statements and Financial Highlights for:

This report must be preceded or accompanied by a prospectus. To obtain an additional 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 NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

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.

DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

DWS Balanced VIP

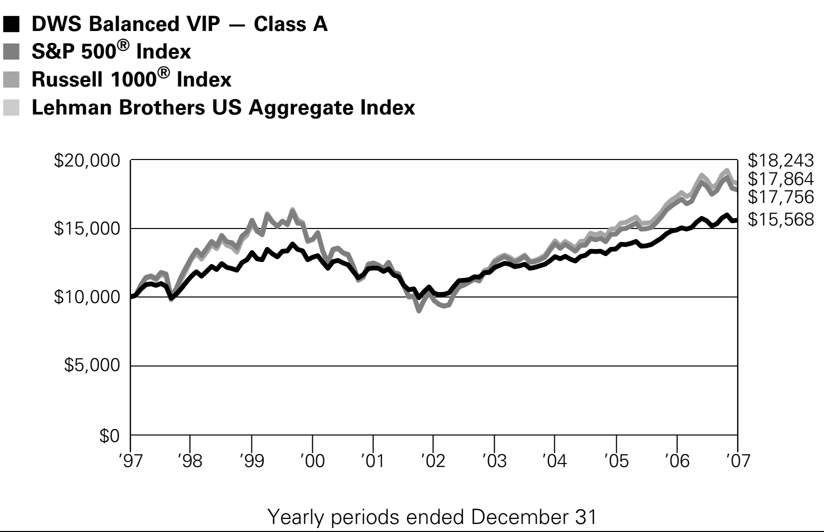
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .55% and .93% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond portfolio, can decline and the investor can lose principal value. In the current market environment, mortgage-backed securities are experiencing increased volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns for all periods shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Balanced VIP



The Standard & Poor's 500® (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index. The Lehman Brothers US Aggregate Index is an unmanaged, market value-weighted measure of treasury issues, agency issues, corporate bond issues and mortgage securities. Index returns, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Balanced VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,484	$12,055	$15,182	$15,568
	Average annual total return	4.84%	6.43%	8.71%	4.53%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$17,756
	Average annual total return	5.49%	8.62%	12.83%	5.91%
Russell 1000 Index†	Growth of $10,000	$10,577	$12,978	$18,780	$18,243
	Average annual total return	5.77%	9.08%	13.43%	6.20%
Lehman Brothers US Aggregate Index	Growth of $10,000	$10,697	$11,431	$12,417	$17,864
	Average annual total return	6.97%	4.56%	4.42%	5.97%

The growth of $10,000 is cumulative.

† *On January 23, 2007, the Russell 1000 Index replaced the S&P 500 Index as the Portfolio's benchmark index for equity investment because the Advisor believes that it more accurately reflects the portfolio's investment strategy.*

DWS Balanced VIP		1-Year	1-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,443	$11,916	$14,899	$14,272
	Average annual total return	4.43%	6.02%	8.30%	6.68%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$16,403
	Average annual total return	5.49%	8.62%	12.83%	9.42%
Russell 1000 Index†	Growth of $10,000	$10,577	$12,978	$18,780	$16,877
	Average annual total return	5.77%	9.08%	13.43%	9.98%
Lehman Brothers US Aggregate Index	Growth of $10,000	$10,697	$11,431	$12,417	$13,190
	Average annual total return	6.97%	4.56%	4.42%	5.16%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

† *On January 23, 2007, the Russell 1000 Index replaced the S&P 500 Index as the Portfolio's benchmark index for equity investment because the Advisor believes that it more accurately reflects the portfolio's investment strategy.*

Information About Your Portfolio's Expenses

DWS Balanced VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,003.60	$1,001.60
Expenses Paid per $1,000*	$ 2.58	$ 4.49
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,022.63	$1,020.72
Expenses Paid per $1,000*	$ 2.60	$ 4.53

* *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**
DWS Variable Series II — DWS Balanced VIP	.51%	.89%

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

These tables do not 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.

DWS Balanced VIP

Equity markets were generally strong during the first half of 2007, but down in the last half, particularly in the fourth quarter, when markets responded to further bad news about the potential impact of the subprime mortgage crisis. The Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, returned 5.14% for the full year 2007. Bond returns were higher than equity returns for the year. Return of the Lehman Brothers US Aggregate Index, which is considered indicative of broad bond market trends, was 6.97% for the 12-month period.

For the 12 months ended December 31, 2007, the Portfolio's Class A shares (unadjusted for contract charges) had a return of 4.84%. Since this Portfolio invests in stocks and bonds in several different categories, performance is analyzed by comparing the Portfolio's return with indices that represent each asset class. In order to create a benchmark that is representative of the Portfolio's standard asset mix, we calculate a blended benchmark return that is 60% return of the Russell 1000® Index and 40% return of the Lehman Brothers US Aggregate Index. Although the Portfolio outperformed this blended benchmark in the first half of 2007, the Portfolio's return for the full year was below the blended benchmark return of 6.39%.

The Portfolio's allocation between stocks and bonds remained close to the neutral position of 60% equity and 40% fixed income during 2007, but with a modest overweight in equities throughout most of the period.[1] This overweight was positive for returns in the first half of the year, as equities outperformed fixed income, but was negative during the last half of the year. Within equities, an underweight in small-cap equities and an overweight in large-cap equities and an emphasis on growth versus value contributed to performance. Overall, tactical asset allocation contributed to performance. The net contribution of the underlying sleeves, the term we use for each of the fixed-income and equity strategies, was negative.

In December 2007, we initiated a major strategic transition for the DWS Balanced VIP that we hope will enhance all components of our investment process over time. We updated strategic asset allocation, adding international equities, among other changes. We also expanded the iGAP overlay, which is designed to take advantage of short-term mispricing in global bond and currency markets, to 100% of the assets. Now the iGAP overlay covers 40 different markets across equities, bonds and currencies. Finally, we increased diversification by adding more managers and investment styles.

Julie Abbett	Jin Chen,CFA	William Chepolis, CFA	John Brennan
Matthew F. MacDonald	Inna Okounkova	Thomas Picciochi	J. Richard Robben, CFA
Gary Sullivan, CFA	Robert Wang	Julie M.VanCleave, CFA	Matthias Knerr, CFA

Portfolio Managers, Deutsche Investment Management Americas Inc.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond portfolio, can decline and the investor can lose principal value. In the current market environment, mortgage-backed securities are experiencing increased volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell 3000 Index measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

The Russell 1000 Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

Index returns assume reinvestment of all dividends and, unlike Portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.

The Lehman Brothers US Aggregate Index is an unmanaged market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns, unlike portfolio returns, do not include fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Balanced VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	59%	60%
Commercial and Non-Agency Mortgage Backed Securities	16%	12%
Corporate Bonds	7%	17%
Government & Agency Obligations	5%	3%
Cash Equivalents	5%	3%
Collateralized Mortgage Obligations	3%	3%
Asset Backed	3%	1%
Mortgage Backed Securities Pass-Throughs	1%	1%
Senior Loans	1%	—
	100%	100%

Sector Diversification (Excludes Cash Equivalents and Securities Lending)	**12/31/07**	**12/31/06**
Financials	18%	23%
Energy	12%	13%
Health Care	12%	10%
Information Technology	12%	13%
Industrials	12%	9%
Consumer Discretionary	11%	13%
Consumer Staples	8%	7%
Telecommunication Services	6%	4%
Materials	5%	5%
Utilities	4%	3%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 8. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

DWS Balanced VIP

	Shares	Value ($)
Common Stocks 58.9%		
Consumer Discretionary 5.7%		
Auto Components 0.5%		
Aftermarket Technology Corp.*	2,400	65,424
Aisin Seiki Co., Ltd.	100	4,158
American Axle & Manufacturing Holdings, Inc.	5,300	98,686
Autoliv, Inc.	26,700	1,407,357
Bridgestone Corp.	300	5,284
Compagnie Generale des Etablissements Michelin "B"	105	12,038
Continental AG	94	12,190
Cooper Tire & Rubber Co.	11,400	189,012
Denso Corp.	200	8,128
Drew Industries, Inc.*	5,200	142,480
Johnson Controls, Inc.	3,000	108,120
Lear Corp.*	5,100	141,066
Magna International, Inc. "A"	300	24,372
Nokian Renkaat Oyj	13,600	473,757
Rieter Holding AG (Registered)	16	7,026
Toyota Industries Corp.	100	4,078
		2,703,176
Automobiles 0.3%		
Daimler AG (Registered)	2,652	256,879
Fiat SpA	2,516	64,666
Harley-Davidson, Inc.	15,860	740,821
Honda Motor Co., Ltd.	600	19,837
Nissan Motor Co., Ltd.	900	9,745
PSA Peugeot Citroen	112	8,420
Renault SA	129	18,100
Suzuki Motor Corp.	17,000	511,287
Toyota Motor Corp.	1,000	53,825
Volkswagen AG	93	21,157
		1,704,737
Distributors 0.0%		
Li & Fung Ltd.	28,000	**111,712**
Diversified Consumer Services 0.1%		
DeVry, Inc.	3,000	155,880
Sotheby's	2,500	95,250
Strayer Education, Inc.	700	119,406
		370,536
Hotels Restaurants & Leisure 0.8%		
Accor SA	151	11,977
AFC Enterprises, Inc.*	5,200	58,864
Aristocrat Leisure Ltd.	2,253	22,163
Buffalo Wild Wings, Inc.*	2,200	51,084
Carnival PLC	148	6,497
Chipotle Mexican Grill, Inc. "B"*	1,100	135,355
CKE Restaurants, Inc.	7,300	96,360
Compass Group PLC	1,390	8,475
Domino's Pizza, Inc.	11,300	149,499
Enterprise Inns PLC	482	4,643
Greene King PLC	11,410	180,301
InterContinental Hotel Group PLC	251	4,381
Lottomatica SpA	307	11,133
McCormick & Schmick's Seafood Restaurants, Inc.*	2,800	33,404
McDonald's Corp.	44,300	2,609,713
Monarch Casino & Resort, Inc.*	1,700	40,936
Ruby Tuesday, Inc.	7,200	70,200
Shangri-La Asia Ltd.	14,000	43,925
Sodexho Alliance SA	85	5,211
TABCORP Holdings Ltd.	3,446	44,612
Tatts Group Ltd.	7,068	24,698
Town Sports International Holdings, Inc.*	12,200	116,632
Trump Entertainment Resorts, Inc.*	11,100	47,730
TUI AG*	155	4,305
Vail Resorts, Inc.*	1,700	91,477
Whitbread PLC	8,938	247,720
WMS Industries, Inc.*	2,800	102,592
		4,223,887
Household Durables 0.5%		
American Greetings Corp. "A"	6,700	136,010
CSS Industries, Inc.	3,300	121,110
Electrolux AB "B"	800	13,331
Fortune Brands, Inc.	5,610	405,940
Hooker Furniture Corp.	7,400	148,740
Husqvarna AB "B"	900	10,622
M/I Homes, Inc.	5,600	58,800
Makita Corp.	4,000	167,143
Matsushita Electric Industrial Co., Ltd.	1,000	20,458
NVR, Inc.*	2,300	1,205,200
Persimmon PLC	272	4,332
Sony Corp.	400	21,707
Taylor Wimpey PLC	1,128	4,509
Tupperware Brands Corp.	3,500	115,605
		2,433,507
Internet & Catalog Retail 0.0%		
FTD Group, Inc.	2,700	34,776
GSI Commerce, Inc.*	2,800	54,600
Home Retail Group PLC	703	4,519
Shutterfly, Inc.*	2,600	66,612
Systemax, Inc.	3,100	62,992
		223,499
Leisure Equipment & Products 0.1%		
Callaway Golf Co.	5,700	99,351
Polaris Industries, Inc.	3,300	157,641
Sturm, Ruger & Co., Inc.*	9,200	76,176
		333,168
Media 1.3%		
British Sky Broadcasting Group PLC	786	9,635
CBS Corp. "B"	75,500	2,057,375
Comcast Corp. "A"*	95,300	1,740,178
Fairfax Media Ltd.	7,736	31,692
Gestevision Telecinco SA	3,911	98,929
Global Sources Ltd.*	4,180	117,960
Interactive Data Corp.	2,900	95,729
ITV PLC	3,194	5,399
Lagardere SCA	107	7,978
McGraw-Hill Companies, Inc.	17,870	782,885

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

	Shares	Value ($)
Mediacom Communications Corp. "A"*	7,800	35,802
Mediaset SpA	2,832	28,475
Modern Times Group MTG AB "B"	175	12,213
Omnicom Group, Inc.	18,420	875,503
Pearson PLC	647	9,402
Publicis Groupe	132	5,133
Reed Elsevier NV	1,433	28,428
Reed Elsevier PLC*	956	12,863
Reuters Group PLC	846	10,674
Scholastic Corp.*	2,700	94,203
Seat Pagine Gialle SpA	18,242	7,172
Shaw Communications, Inc. "B"	1,200	28,743
Singapore Press Holdings Ltd.	212,000	660,977
Thomson Corp.	800	32,658
Vivendi	790	35,998
Walt Disney Co.	3,500	112,980
Wolters Kluwer NV	599	19,570
WPP Group PLC	846	10,831
Yell Group PLC	684	5,423
Yellow Pages Income Fund (Unit)	900	12,675
		6,987,483
Multiline Retail 0.5%		
Canadian Tire Corp. Ltd. "A"	300	22,554
Kohl's Corp.*	23,180	1,061,644
Marks & Spencer Group PLC	1,148	12,716
Next PLC	169	5,421
PPR	57	9,113
Target Corp.	34,200	1,710,000
		2,821,448
Specialty Retail 1.2%		
Barnes & Noble, Inc.	17,600	606,320
Best Buy Co., Inc.	10,920	574,938
Cato Corp. "A"	4,800	75,168
Esprit Holdings Ltd.	50,400	746,471
GameStop Corp. "A"*	19,200	1,192,512
Hennes & Mauritz AB "B"	1,425	86,126
Hot Topic, Inc.*	14,000	81,480
Industria de Diseno Textil SA	12,223	743,182
Jo-Ann Stores, Inc.*	5,500	71,940
Jos. A. Bank Clothiers, Inc.*	3,800	108,110
Kingfisher PLC	1,961	5,647
New York & Co., Inc.*	11,900	75,922
Rent-A-Center, Inc.*	9,800	142,296
RONA, Inc.*	500	8,638
Staples, Inc.	34,810	803,067
The Men's Wearhouse, Inc.	3,800	102,524
Tiffany & Co.	16,800	773,304
West Marine, Inc.*	6,700	60,166
Yamada Denki Co., Ltd.	50	5,691
		6,263,502
Textiles, Apparel & Luxury Goods 0.4%		
Adidas AG	3,129	232,975
Billabong International Ltd.	1,159	15,060
Burberry Group PLC	424	4,773
Coach, Inc.*	25,500	779,790
Compagnie Financiere Richemont SA "A" (Unit)	8,667	591,301
Deckers Outdoor Corp.*	500	77,530
Fossil, Inc.*	2,700	113,346
Gildan Activewear, Inc.*	400	16,593
Hermes International	54	6,876

	Shares	Value ($)
Kellwood Co.	2,200	36,608
Luxottica Group SpA	492	15,567
LVMH Moet Hennessy Louis Vuitton SA	165	19,831
Movado Group, Inc.	2,800	70,812
Oxford Industries, Inc.	2,200	56,694
Perry Ellis International, Inc.*	6,300	96,894
Swatch Group AG (Bearer)	96	28,782
Swatch Group AG (Registered)	162	9,471
The Warnaco Group, Inc.*	3,200	111,360
		2,284,263

Consumer Staples 5.2%

	Shares	Value ($)
Beverages 1.6%		
Asahi Breweries Ltd.	800	13,556
Carlsberg AS "B"	575	69,173
Coca-Cola Amatil Ltd.	2,024	16,777
Coca-Cola Enterprises, Inc.	88,800	2,311,464
Diageo PLC	63,698	1,369,231
Foster's Group Ltd.	7,317	41,990
Heineken NV	681	43,860
InBev NV	5,990	494,163
Kirin Holdings Co., Ltd.	1,000	14,655
Pepsi Bottling Group, Inc.	22,900	903,634
PepsiCo, Inc.	43,760	3,321,384
Pernod Ricard SA	154	35,469
SABMiller PLC	698	19,639
Scottish & Newcastle PLC	664	9,783
		8,664,778
Food & Staples Retailing 1.1%		
AEON Co., Ltd.	1,200	17,516
Alimentation Couche-Tard, Inc. "B"	1,200	22,238
BJ's Wholesale Club, Inc.*	41,700	1,410,711
Carrefour SA	1,049	81,327
Casey's General Stores, Inc.	4,000	118,440
Casino Guichard-Perrachon SA	82	8,923
Colruyt SA	81	18,969
Delhaize Group	491	42,933
George Weston Ltd.	500	27,433
Ingles Markets, Inc. "A"	3,500	88,865
J Sainsbury PLC	1,318	11,092
Kesko Oyj "B"	133	7,298
Koninklijke Ahold NV*	3,598	49,959
Kroger Co.	51,800	1,383,578
Loblaw Companies Ltd.	900	30,977
Longs Drug Stores Corp.	1,900	89,300
Metro AG	1,391	116,096
Ruddick Corp.	3,000	104,010
Seven & I Holdings Co., Ltd.	1,400	40,713
Shoppers Drug Mart Corp.	14,400	777,085
Spartan Stores, Inc.	4,600	105,110
Tesco PLC	30,114	284,357
Walgreen Co.	27,210	1,036,157
Wesfarmers Ltd.	1,464	51,874
Woolworths Ltd.	4,380	130,010
		6,054,971
Food Products 0.9%		
Ajinomoto Co., Inc.	1,000	11,319
Cadbury Schweppes PLC	1,609	20,057
Danisco AS	850	60,061
Dean Foods Co.	43,760	1,131,634
Flowers Foods, Inc.	2,400	56,184
Fresh Del Monte Produce, Inc.*	5,200	174,616

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

	Shares	Value ($)
Groupe Danone	13,875	1,245,238
IAWS Group PLC	2,470	54,389
Imperial Sugar Co.	3,000	56,310
Kellogg Co.	20,310	1,064,853
Kerry Group PLC "A"	2,530	81,861
Nestle SA (Registered)	1,418	649,747
Nissin Food Products Co., Ltd.	200	6,463
Parmalat SpA	2,981	11,524
Saputo, Inc.	1,200	36,269
Tate & Lyle PLC	461	4,046
Unilever NV (CVA)	4,792	175,448
Unilever PLC	966	36,227
Yakult Honsha Co., Ltd.	200	4,614
		4,880,860
Household Products 1.0%		
Colgate-Palmolive Co.	14,770	1,151,469
Kao Corp.	1,000	30,090
Kimberly-Clark Corp.	31,000	2,149,540
Procter & Gamble Co.	27,790	2,040,342
		5,371,441
Personal Products 0.1%		
Beiersdorf AG	763	58,883
Elizabeth Arden, Inc.*	3,800	77,330
L'Oreal SA	434	61,954
Shiseido Co., Ltd.	1,000	23,692
		221,859
Tobacco 0.5%		
Alliance One International, Inc.*	13,000	52,910
Altadis SA	3,683	267,632
Altria Group, Inc.	17,100	1,292,418
British American Tobacco PLC	1,123	44,220
Imperial Tobacco Group PLC	506	27,549
Japan Tobacco, Inc.	128	758,965
Swedish Match AB	11,200	266,497
		2,710,191

Energy 7.5%

	Shares	Value ($)
Energy Equipment & Services 1.6%		
Acergy SA	350	7,711
Aker Kvaerner ASA	300	7,912
Atwood Oceanics, Inc.*	1,600	160,384
Baker Hughes, Inc.	24,950	2,023,445
Exterran Holdings, Inc.*	1,700	139,060
Fugro NV (CVA)	784	60,094
Grey Wolf, Inc.*	27,400	146,042
GulfMark Offshore, Inc.*	1,700	79,543
Helmerich & Payne, Inc.	6,900	276,483
Hercules Offshore, Inc.*	2,900	68,962
Noble Corp.	23,160	1,308,772
Oil States International, Inc.*	2,200	75,064
Petroleum Geo-Services ASA	300	8,627
Pioneer Drilling Co.*	6,700	79,596
ProSafe SE	300	5,172
SBM Offshore NV	1,914	60,036
Schlumberger Ltd.	31,560	3,104,557
Seadrill Ltd.*	400	9,631
Technip SA	75	5,932
Transocean, Inc.*	7,202	1,030,966
Union Drilling, Inc.*	6,900	108,813
W-H Energy Services, Inc.*	1,300	73,073
WorleyParsons Ltd.	397	18,017
		8,857,892

	Shares	Value ($)
Oil, Gas & Consumable Fuels 5.9%		
Alon USA Energy, Inc.	2,500	67,950
Alpha Natural Resources, Inc.*	4,500	146,160
ATP Oil & Gas Corp.*	2,700	136,458
Berry Petroleum Co. "A"	2,200	97,790
BG Group PLC	724	16,669
Bill Barrett Corp.*	1,600	66,992
Bois d'Arc Energy, Inc.*	5,400	107,190
BP PLC	3,970	48,551
Brigham Exploration Co.*	16,000	120,320
Caltex Australia Ltd.	413	6,982
Cameco Corp.	200	8,019
Canadian Natural Resources Ltd.	200	14,708
Canadian Oil Sands Trust (Unit)	100	3,922
Chesapeake Energy Corp.	18,900	740,880
Chevron Corp.	25,400	2,370,582
Comstock Resources, Inc.*	4,400	149,600
ConocoPhillips	56,480	4,987,184
Devon Energy Corp.	26,270	2,335,666
Edge Petroleum Corp.*	3,100	18,383
Enbridge, Inc.	100	4,054
EnCana Corp.	300	20,518
Encore Aquisition Co.*	2,500	83,425
Eni SpA	3,316	120,824
EOG Resources, Inc.	23,220	2,072,385
ExxonMobil Corp.	57,500	5,387,175
Frontier Oil Corp.	21,700	880,586
Gazprom (ADR)	8,900	501,175
Hess Corp.	18,900	1,906,254
Husky Energy, Inc.	100	4,518
Imperial Oil Ltd.	100	5,534
INPEX Holdings, Inc.	6	64,541
KazMunaiGas Exploration Production (GDR) 144A	7,200	223,200
Marathon Oil Corp.	30,500	1,856,230
Mariner Energy, Inc.*	7,900	180,752
Neste Oil Oyj	113	3,963
Nexen, Inc.	200	6,505
Nippon Mining Holdings, Inc.	6,500	41,756
Nippon Oil Corp.	9,000	73,321
OMV AG	1,633	131,400
Origin Energy Ltd.	2,414	18,703
Paladin Energy Ltd.*	1,466	8,616
Penn Virginia Corp.	2,200	95,986
Petro-Canada	200	10,791
Petrohawk Energy Corp.*	7,800	135,018
PetroQuest Energy, Inc.*	6,600	94,380
Repsol YPF SA	9,074	323,556
Royal Dutch Shell PLC "A"	756	31,849
Royal Dutch Shell PLC "B"	575	24,049
Santos Ltd.	1,588	19,709
Spectra Energy Corp.	32,400	836,568
St. Mary Land & Exploration Co.	8,700	335,907
StatoilHydro ASA	16,150	499,345
Suncor Energy, Inc.	200	21,867
Swift Energy Co.*	2,900	127,687
Talisman Energy, Inc.	500	9,317
TonenGeneral Sekiyu KK	2,000	19,713
Total SA	5,216	432,874
TransCanada Corp.	200	8,215
Uranium Resources, Inc.*	3,500	43,680
Valero Energy Corp.	14,170	992,325
Whiting Petroleum Corp.*	1,800	103,788

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

	Shares	Value ($)
Woodside Petroleum Ltd.	1,273	55,987
XTO Energy, Inc.	42,220	2,168,419
		31,430,471

Financials 9.9%

Capital Markets 2.3%

	Shares	Value ($)
3i Group PLC	22,373	444,642
Ameriprise Financial, Inc.	27,500	1,515,525
Bank of New York Mellon Corp.	23,500	1,145,860
Credit Suisse Group (Registered)	572	34,393
Daiwa Securities Group, Inc.	1,000	9,214
IGM Financial, Inc.	100	5,069
Julius Baer Holding AG (Registered)	1,799	146,229
Lehman Brothers Holdings, Inc.	37,590	2,459,890
Mediobanca SpA	349	7,161
Morgan Stanley	45,200	2,400,572
Nomura Holdings, Inc.	900	15,045
optionsXpress Holdings, Inc.	2,800	94,696
Prospect Capital Corp.	7,400	96,570
State Street Corp.	17,940	1,456,728
The Goldman Sachs Group, Inc.	10,600	2,279,530
UBS AG (Registered)	1,122	52,105
Waddell & Reed Financial, Inc. "A"	5,000	180,450
		12,343,679

Commercial Banks 2.3%

	Shares	Value ($)
Allied Irish Banks PLC	4,947	112,376
AmericanWest Bancorp.	2,000	35,260
Australia & New Zealand Banking Group Ltd.	888	21,293
Banca Monte dei Paschi di Siena SpA	915	4,836
Banca Popolare di Milano Scarl	402	5,434
Banco Bilbao Vizcaya Argentaria SA	1,958	48,091
Banco Comercial Portugues SA (Registered)	19,399	82,366
Banco Espirito Santo SA (Registered)	2,417	52,776
Banco Popular Espanol SA	560	9,449
Banco Santander SA	3,249	70,192
Bancolombia SA (ADR) (REG S) (Preferred)	6,000	204,120
Bank of Cyprus PCL	20,564	377,387
Bank of East Asia Ltd.	2,800	18,940
Bank of Ireland	5,624	82,856
Bank of Montreal	300	17,122
Bank of Nova Scotia	500	25,472
Bank of Yokohama Ltd.	1,000	7,071
Barclays PLC	1,486	15,053
BB&T Corp.	7,000	214,690
BNP Paribas	428	46,008
BOC Hong Kong (Holdings) Ltd.	7,000	19,345
Canadian Imperial Bank of Commerce	200	14,297
Cathay General Bancorp.	5,500	145,695
China Merchants Bank Co., Ltd. "H"	32,000	129,675
Citizens Republic Bancorp., Inc.	8,700	126,237
City Holding Co.	1,500	50,760
Commerzbank AG	406	15,367
Commonwealth Bank of Australia	608	31,404
Credit Agricole SA	364	12,211
Danske Bank AS	3,500	135,681
DBS Group Holdings Ltd.	5,000	70,858
Deutsche Postbank AG	64	5,658
Dexia SA	666	16,739
DnB NOR ASA	5,600	84,930
Erste Bank der oesterreichischen Sparkassen AG	5,474	389,064
First Community Bancorp.	2,400	98,976
First Midwest Bancorp., Inc.	3,900	119,340
FirstMerit Corp.	6,900	138,069
Frontier Financial Corp.	4,400	81,708
Glacier Bancorp., Inc.	5,000	93,700
Grupo Financiero Banorte SAB de CV "O"	68,600	283,468
Hancock Holding Co.	1,400	53,480
Hang Seng Bank Ltd.	1,300	26,565
HBOS PLC	809	11,731
HSBC Holdings PLC (Registered)	2,293	38,464
Hypo Real Estate Holding AG	145	7,543
Intesa Sanpaolo	4,483	34,898
Jyske Bank AS (Registered)*	475	37,157
KBC Groep NV	2,027	283,103
Kookmin Bank (ADR)*	3,000	219,960
Lloyds TSB Group PLC	1,300	12,122
MB Financial, Inc.	3,400	104,822
Mitsubishi UFJ Financial Group, Inc.	22,479	209,230
Mizuho Financial Group, Inc.	4	18,976
National Australia Bank Ltd.	790	26,062
National Bank of Canada	100	5,298
National Bank of Greece SA	5,200	358,213
NBT Bancorp, Inc.	3,300	75,306
Nordea Bank AB	3,800	63,038
Old National Bancorp.	6,800	101,728
Oversea-Chinese Banking Corp., Ltd.	12,000	69,247
Pacific Capital Bancorp.	10,300	207,339
Provident Bankshares Corp.	4,400	94,116
Raiffeisen International Bank-Holding AG	300	45,199
Resona Holdings, Inc.	3	5,488
Royal Bank of Canada	700	35,988
Royal Bank of Scotland Group PLC	2,125	19,104
Skandinaviska Enskilda Banken AB "A"	900	22,761
Societe Generale	1,285	183,646
Standard Chartered PLC	9,243	335,676
Sterling Bancshares, Inc.	13,450	150,102
Sterling Financial Corp.	6,800	114,172
Sumitomo Mitsui Financial Group, Inc.	3	22,323
Sumitomo Trust & Banking Co., Ltd.	1,000	6,658
SunTrust Banks, Inc.	16,300	1,018,587
SVB Financial Group*	3,100	156,240
Svenska Handelsbanken AB "A"	900	28,547
Sydbank AS	500	21,245
UCBH Holdings, Inc.	7,700	109,032
UniCredito Italiano SpA	67,264	559,801
Unione di Banche Italiane SCPA	379	10,433
United Overseas Bank Ltd.	6,000	83,049
VTB Bank OJSC (GDR) 144A*	26,000	265,200
Wells Fargo & Co.	122,600	3,701,294
Westpac Banking Corp.	886	21,589
		12,488,506

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

	Shares	Value ($)
Consumer Finance 0.1%		
Capital One Financial Corp.	11,400	538,764
Cash America International, Inc.	2,000	64,600
ORIX Corp.	50	8,361
		611,725
Diversified Financial Services 1.6%		
ASX Ltd.	115	6,081
Bank of America Corp.	110,400	4,555,104
Citigroup, Inc.	32,800	965,632
CME Group, Inc.	2,295	1,574,370
Deutsche Boerse AG	125	24,672
Fortis	10,719	278,557
Groupe Bruxelles Lambert SA	108	13,793
Hong Kong Exchanges & Clearing Ltd.	2,000	56,146
ING Groep NV (CVA)	2,363	92,234
Interactive Brokers Group, Inc. "A"*	4,100	132,512
JPMorgan Chase & Co.	19,800	864,270
OMX AB	200	8,094
Singapore Exchange Ltd.	4,000	36,564
		8,608,029
Insurance 2.5%		
ACE Ltd.	33,100	2,044,918
Aegon NV	1,834	32,177
Aflac, Inc.	22,580	1,414,185
Alleanza Assicurazioni SpA	232	2,981
Allianz SE (Registered)	275	58,820
Allied World Assurance Co. Holdings Ltd.	4,100	205,697
American International Group, Inc.	3,600	209,880
AMP Ltd.	965	8,397
AmTrust Financial Services, Inc.	6,600	90,882
Aspen Insurance Holdings Ltd.	6,700	193,228
Assicurazioni Generali SpA	525	23,535
Aviva PLC	589	7,823
Axa	5,497	218,870
AXA Asia Pacific Holdings Ltd.	529	3,410
CNP Assurances	24	3,112
First Mercury Financial Corp.*	4,400	107,360
Great-West Lifeco, Inc.	100	3,604
Hallmark Financial Services, Inc.*	5,600	88,816
Hartford Financial Services Group, Inc.	24,900	2,171,031
HCC Insurance Holdings, Inc.	4,300	123,324
Insurance Australia Group Ltd.	1,063	3,829
Irish Life & Permanent PLC	1,626	27,981
Legal & General Group PLC	2,181	5,642
Manulife Financial Corp.	800	32,885
Max Capital Group Ltd.	4,500	125,955
MetLife, Inc.	2,500	154,050
Millea Holdings, Inc.	300	10,140
Mitsui Sumitomo Insurance Co., Ltd.	1,000	9,760
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	128	24,744
National Financial Partners Corp.	2,500	114,025
Old Mutual PLC	1,347	4,466
PartnerRe Ltd.	4,200	346,626
Platinum Underwriters Holdings Ltd.	6,100	216,916
Power Corp. of Canada	200	8,132
Power Financial Corp.	100	4,131
Prudential PLC	23,757	333,937
QBE Insurance Group Ltd.	10,887	317,237
Sampo Oyj "A"	4,366	114,187
Seabright Insurance Holdings*	6,900	104,052
Security Capital Assurance Ltd.	17,500	68,075
Selective Insurance Group, Inc.	4,200	96,558
Sompo Japan Insurance, Inc.	1,000	9,009
Storebrand ASA	3,200	33,140
Sun Life Financial, Inc.	300	16,934
Suncorp-Metway Ltd.	457	6,766
Swiss Life Holding (Registered)*	19	4,704
Swiss Re (Registered)	190	13,328
T&D Holdings, Inc.	100	5,176
The Travelers Companies, Inc.	39,600	2,130,480
Topdanmark AS*	125	17,825
W.R. Berkley Corp.	20,600	614,086
XL Capital Ltd. "A"	24,300	1,222,533
Zurich Financial Services AG (Registered)	77	22,660
		13,232,019
Real Estate Investment Trusts 0.9%		
Alexandria Real Estate Equities, Inc. (REIT)	1,600	162,672
Apartment Investment & Management Co. "A" (REIT)	4,000	138,920
AvalonBay Communities, Inc. (REIT)	2,500	235,350
BioMed Realty Trust, Inc. (REIT)	4,000	92,680
CapitaMall Trust (REIT)	6,000	14,268
Corio NV (REIT)	72	5,795
Corporate Office Properties Trust (REIT)	2,800	88,200
Cousins Properties, Inc. (REIT)	3,500	77,350
Digital Realty Trust, Inc. (REIT)	2,900	111,273
Equity Lifestyle Properties, Inc. (REIT)	1,700	77,639
Equity Residential (REIT)	8,500	309,995
First Industrial Realty Trust, Inc. (REIT)	4,000	138,400
Glimcher Realty Trust (REIT)	3,500	50,015
GPT Group (REIT)	1,538	5,430
HCP, Inc. (REIT)	3,900	135,642
Healthcare Realty Trust, Inc. (REIT)	2,600	66,014
Home Properties, Inc. (REIT)	2,900	130,065
Hospitality Properties Trust (REIT)	7,200	231,984
Host Hotels & Resorts, Inc. (REIT)	12,100	206,184
Kimco Realty Corp. (REIT)	4,000	145,600
LaSalle Hotel Properties (REIT)	2,600	82,940
Lexington Realty Trust (REIT)	5,900	85,786
Link (REIT)	4,500	9,752
Macquarie Goodman Group (REIT)	1,094	4,708
Maguire Properties, Inc. (REIT)	2,700	79,569
Mid-America Apartment Communities, Inc. (REIT)	1,800	76,950
Nationwide Health Properties, Inc. (REIT)	3,400	106,658
OMEGA Healthcare Investors, Inc. (REIT)	2,800	44,940
Parkway Properties, Inc. (REIT)	2,500	92,450
Pennsylvania Real Estate Investment Trust (REIT)	2,300	68,264
Potlatch Corp. (REIT)	2,000	88,880
ProLogis (REIT)	4,000	253,520
Public Storage (REIT)	2,500	183,525
Realty Income Corp. (REIT)	4,100	110,782

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

	Shares	Value ($)
Senior Housing Properties Trust (REIT)	5,800	131,544
Simon Property Group, Inc. (REIT)	3,100	269,266
Sovran Self Storage, Inc. (REIT)	1,500	60,150
Stockland (REIT)	923	6,794
Strategic Hotels & Resorts, Inc. (REIT)	4,900	81,977
Sunstone Hotel Investors, Inc. (REIT)	4,700	85,963
Unibail-Rodamco (REIT)	40	8,707
Vornado Realty Trust (REIT)	3,400	299,030
Washington Real Estate Investment Trust (REIT)	3,500	109,935
Wereldhave NV (REIT)	48	5,222
Westfield Group (REIT)	891	16,326
		4,787,114
Real Estate Management & Development 0.1%		
Brookfield Asset Management, Inc. "A"	300	10,776
Capitaland Ltd.	7,000	30,097
Cheung Kong (Holdings) Ltd.	3,000	54,702
City Developments Ltd.	2,000	19,475
Hang Lung Properties Ltd.	4,000	18,342
Henderson Land Development Co., Ltd.	2,000	18,564
Immoeast AG*	3,595	38,395
Immofinanz Immobilien Anlagen AG	4,062	40,932
Kerry Properties Ltd.	1,000	8,020
Lend Lease Corp., Ltd.	287	4,345
Meinl European Land Ltd.*	2,619	36,181
Mitsubishi Estate Co., Ltd.	1,000	23,971
Mitsui Fudosan Co., Ltd.	7,000	151,283
New World Development Co., Ltd.	4,000	14,091
Sino Land Co., Ltd.	2,000	6,990
Sun Hung Kai Properties Ltd.	2,000	42,024
Swire Pacific Ltd. "A"	1,500	20,556
Wharf Holdings Ltd.	38,000	196,132
		734,876
Thrifts & Mortgage Finance 0.1%		
Downey Financial Corp.	2,600	80,886
First Niagara Financial Group, Inc.	4,000	48,160
Ocwen Financial Corp.*	22,500	124,650
WSFS Financial Corp.	1,600	80,320
		334,016

Health Care 7.7%

	Shares	Value ($)
Biotechnology 1.5%		
Alexion Pharmaceuticals, Inc.*	1,100	82,533
Alkermes, Inc.*	5,400	84,186
Amgen, Inc.*	34,800	1,616,112
BioMarin Pharmaceutical, Inc.*	3,600	127,440
Celgene Corp.*	18,400	850,264
CSL Ltd.	7,230	229,777
Cubist Pharmaceuticals, Inc.*	5,700	116,907
Genentech, Inc.*	25,390	1,702,907
Gilead Sciences, Inc.*	53,780	2,474,418
GTx, Inc.*	3,700	53,095
Isis Pharmaceuticals, Inc.*	3,500	55,125
Myriad Genetics, Inc.*	2,100	97,482
Onyx Pharmaceuticals, Inc.*	2,200	122,364
OSI Pharmaceuticals, Inc.*	3,800	184,338
United Therapeutics Corp.*	900	87,885
		7,884,833
Health Care Equipment & Supplies 1.4%		
Align Technology, Inc.*	3,000	50,040
ArthroCare Corp.*	1,400	67,270
Baxter International, Inc.	36,620	2,125,791
C.R. Bard, Inc.	12,150	1,151,820
Cochlear Ltd.	739	48,516
Cutera, Inc.*	5,100	80,070
Cynosure, Inc. "A"*	2,500	66,150
Essilor International SA	609	38,758
Getinge AB "B"	200	5,341
Hologic, Inc.*	9,000	617,760
Inverness Medical Innovations, Inc.*	2,200	123,596
Medtronic, Inc.	32,600	1,638,802
Nobel Biocare Holding AG (Bearer)	31	8,201
Quidel Corp.*	4,900	95,403
Smith & Nephew PLC	1,343	15,440
Sonova Holding AG (Registered)	59	6,600
STERIS Corp.	2,900	83,636
Synthes, Inc.	73	9,023
Terumo Corp.	500	26,341
William Demant Holding AS*	100	9,171
Zimmer Holdings, Inc.*	17,090	1,130,504
		7,398,233
Health Care Providers & Services 1.5%		
Aetna, Inc.	20,600	1,189,238
Air Methods Corp.*	900	44,703
Alliance Imaging, Inc.*	11,200	107,744
Amedisys, Inc.*	2,600	126,152
American Dental Partners, Inc.*	6,400	64,192
AmSurg Corp.*	3,100	83,886
Apria Healthcare Group, Inc.*	10,600	228,642
Celesio AG	413	25,471
Centene Corp.*	6,800	186,592
Chemed Corp.	1,400	78,232
CorVel Corp.*	4,900	112,798
Fresenius Medical Care AG & Co. KGaA	5,909	316,075
Healthspring, Inc.*	10,100	192,405
Kindred Healthcare, Inc.*	4,600	114,908
Laboratory Corp. of America Holdings*	11,300	853,489
Magellan Health Services, Inc.*	3,500	163,205
McKesson Corp.	25,000	1,637,750
MedCath Corp.*	2,900	71,224
Owens & Minor, Inc.	2,600	110,318
Psychiatric Solutions, Inc.*	2,200	71,500
RehabCare Group, Inc.*	2,500	56,400
Res-Care, Inc.*	3,300	83,028
Sonic Healthcare Ltd.	4,134	60,463
UnitedHealth Group, Inc.	26,930	1,567,326
WellPoint, Inc.*	6,100	535,153
		8,080,894
Health Care Technology 0.1%		
Agfa Gevaert NV	6,170	94,384
Eclipsys Corp.*	3,200	80,992
Omnicell, Inc.*	3,600	96,948
Phase Forward, Inc.*	4,200	91,350
TriZetto Group, Inc.*	6,100	105,957
		469,631

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

	Shares	Value ($)
Life Sciences Tools & Services 0.5%		
Albany Molecular Research, Inc.*	7,200	103,536
Cambrex Corp.	21,400	179,332
Dionex Corp.*	1,500	124,290
Illumina, Inc.*	1,800	106,668
Lonza Group AG (Registered)	2,989	359,522
MDS, Inc.	9,100	176,938
PAREXEL International Corp.*	1,600	77,280
Pharmanet Development Group, Inc.*	1,800	70,578
QIAGEN NV*	877	18,835
Thermo Fisher Scientific, Inc.*	20,700	1,193,976
Varian, Inc.*	1,700	111,010
Ventana Medical Systems, Inc.*	2,000	174,460
		2,696,425
Pharmaceuticals 2.7%		
Abbott Laboratories	23,640	1,327,386
Alpharma, Inc. "A"*	3,900	78,585
Astellas Pharma, Inc.	1,600	69,803
AstraZeneca PLC	2,082	89,460
Biovail Corp.	10,800	146,196
Caraco Pharmaceutical Laboratories Ltd.*	4,000	68,600
Chugai Pharmaceutical Co., Ltd.	900	12,857
Daiichi Sankyo Co., Ltd.	2,200	67,592
Eisai Co., Ltd.	800	31,545
Elan Corp. PLC*	14,392	310,546
Eli Lilly & Co.	35,720	1,907,091
GlaxoSmithKline PLC	7,866	199,614
Johnson & Johnson	45,182	3,013,639
Kyowa Hakko Kogyo Co., Ltd.	1,000	10,655
Medicis Pharmaceutical Corp. "A"	5,200	135,044
Merck & Co., Inc.	4,100	238,251
Merck KGaA	1,513	194,359
Mitsubishi Tanabe Pharma Corp.	1,000	9,422
Novartis AG (Registered)	11,505	626,772
Noven Pharmaceuticals, Inc.*	7,200	99,936
Novo Nordisk AS "B"	1,900	124,026
Perrigo Co.	5,100	178,551
Pfizer, Inc.	177,400	4,032,302
Roche Holding AG (Genusschein)	2,356	405,824
Sanofi-Aventis	3,149	287,820
Sciele Pharma, Inc.*	7,200	147,240
Shionogi & Co., Ltd.	1,000	17,634
Taisho Pharmaceutical Co., Ltd.	1,000	19,258
Takeda Pharmaceutical Co., Ltd.	2,600	151,989
UCB SA	5,229	235,832
Valeant Pharmaceuticals International*	14,400	172,368
ViroPharma, Inc.*	11,100	88,134
		14,498,331

Industrials 7.3%

	Shares	Value ($)
Aerospace & Defense 1.7%		
BAE Systems PLC	17,500	171,389
Bombardier, Inc. "B"*	8,200	49,518
CAE, Inc.	1,500	20,229
Cobham PLC	1,159	4,790
Cubic Corp.	2,100	82,320
Curtiss-Wright Corp.	2,800	140,560
Esterline Technologies Corp.*	2,100	108,675
European Aeronautic Defence & Space Co.	222	7,048
Finmeccanica SpA	206	6,529
General Dynamics Corp.	8,100	720,819
Goodrich Corp.	16,300	1,150,943
Honeywell International, Inc.	30,800	1,896,356
Northrop Grumman Corp.	31,600	2,485,024
Rolls-Royce Group PLC*	1,290	13,943
Singapore Technologies Engineering Ltd.	15,000	38,858
Teledyne Technologies, Inc.*	1,600	85,328
Thales SA	71	4,204
United Technologies Corp.	25,240	1,931,870
		8,918,403
Air Freight & Logistics 0.0%		
Deutsche Post AG (Registered)	514	17,567
TNT NV	1,823	75,860
Toll Holdings Ltd.	1,558	15,604
		109,031
Airlines 0.2%		
Air France-KLM	113	3,940
AirTran Holdings, Inc.*	8,500	60,860
Alaska Air Group, Inc.*	7,100	177,571
Cathay Pacific Airways Ltd.	13,000	33,781
Deutsche Lufthansa AG (Registered)	185	4,899
Iberia Lineas Aereas de Espana SA	2,831	12,254
JetBlue Airways Corp.*	10,300	60,770
Qantas Airways Ltd.	2,776	13,207
Republic Airways Holdings, Inc.*	5,500	107,745
Singapore Airlines Ltd.	6,000	71,817
SkyWest, Inc.	4,500	120,825
US Airways Group, Inc.*	41,600	611,936
		1,279,605
Building Products 0.1%		
Apogee Enterprises, Inc.	5,900	100,949
Asahi Glass Co., Ltd.	1,000	13,261
Assa Abloy AB "B"	400	7,958
Builders FirstSource, Inc.*	18,100	130,682
Compagnie de Saint-Gobain	180	17,060
Daikin Industries Ltd.	100	5,583
Geberit AG (Registered)	59	8,044
NCI Building Systems, Inc.*	2,300	66,217
Rockwool International AS "B"	250	57,630
Universal Forest Products, Inc.	1,700	50,082
Wienerberger AG	3,829	211,514
		668,980
Commercial Services & Supplies 0.5%		
Adecco SA (Registered)	181	9,706
Administaff, Inc.	3,200	90,496
Allied Waste Industries, Inc.*	2,800	30,856
Brambles Ltd.	3,896	39,265
Casella Waste Systems, Inc. "A"*	5,900	76,936
Cenveo, Inc.*	4,300	75,121
COMSYS IT Partners, Inc.*	5,300	83,634
Consolidated Graphics, Inc.*	1,600	76,512
Deluxe Corp.	4,800	157,872
Diamond Management & Technology Consultants, Inc.	5,200	37,804
Experian Group Ltd.	763	6,064
G4S PLC	997	4,816
Hudson Highland Group, Inc.*	14,500	121,945
Huron Consulting Group, Inc.*	1,000	80,630
IKON Office Solutions, Inc.	8,800	114,576

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

	Shares	Value ($)
Interface, Inc. "A"	3,900	63,648
Intertek Group PLC	11,208	219,743
Kforce, Inc.*	6,900	67,275
Layne Christensen Co.*	2,300	113,183
PeopleSupport, Inc.*	4,700	64,296
Randstad Holdings NV	248	9,847
Rentokil Initial PLC	1,774	4,237
Rollins, Inc.	4,200	80,640
Secom Co., Ltd.	100	5,475
Securitas AB "B"	400	5,529
Serco Group PLC	23,215	212,210
SGS SA (Registered)	7	8,247
TeleTech Holdings, Inc.*	3,100	65,937
TrueBlue, Inc.*	5,500	79,640
United Stationers, Inc.*	2,800	129,388
Vedior NV (CVA)	795	19,846
Waste Connections, Inc.*	3,700	114,330
Waste Industries USA, Inc.	2,900	105,270
		2,374,974
Construction & Engineering 0.6%		
Acciona SA	158	49,661
ACS, Actividades de Construccion y Servicios SA	1,180	69,511
AMEC PLC	56,568	938,329
Balfour Beatty PLC	491	4,814
EMCOR Group, Inc.*	7,600	179,588
FLSmidth & Co. AS "B"	200	20,268
Fomento de Construcciones y Contratas SA	278	20,718
Grupo Ferrovial SA	367	25,625
Hochtief AG	35	4,658
Integrated Electrical Services, Inc.*	4,600	86,434
Leighton Holdings Ltd.	8,188	436,518
Michael Baker Corp.*	4,300	176,730
Orascom Construction Industries (GDR) (REG S)	2,000	418,838
Perini Corp.*	3,600	149,112
Sacyr Vallehermoso SA	490	18,849
Skanska AB "B"	600	11,206
SNC-Lavalin Group, Inc.	900	43,899
URS Corp.*	3,500	190,155
Vinci SA	266	19,540
YIT Oyj	1,940	41,924
		2,906,377
Electrical Equipment 0.8%		
ABB Ltd. (Registered)	12,328	355,440
Acuity Brands, Inc.	2,300	103,500
Alstom	65	13,813
Baldor Electric Co.	2,700	90,882
Belden, Inc.	3,600	160,200
Emerson Electric Co.	51,240	2,903,258
Encore Wire Corp.	4,800	76,416
Gamesa Corporacion Tecnologica SA	931	43,074
GrafTech International Ltd.*	5,800	102,950
II-VI, Inc.*	2,800	85,540
LSI Industries, Inc.	3,600	65,520
Mitsubishi Electric Corp.	1,000	10,328
Regal-Beloit Corp.	1,700	76,415
Renewable Energy Corp. AS*	100	4,999
Schneider Electric SA	133	17,784
Solarworld AG	59	3,541
Sumitomo Electric Industries Ltd.	400	6,372

	Shares	Value ($)
Superior Essex, Inc.*	6,700	160,800
Vestas Wind Systems AS*	600	64,141
		4,344,973
Industrial Conglomerates 1.3%		
Bauygues SA	300	24,874
CSR Ltd.	3,192	8,663
Fraser & Neave Ltd.	10,000	40,492
General Electric Co.	136,940	5,076,366
Hutchison Whampoa Ltd.	20,000	225,064
Keppel Corp., Ltd.	13,000	116,372
Koninklijke (Royal) Philips Electronics NV	2,290	99,244
Orkla ASA	600	11,558
SembCorp Industries Ltd.	10,000	39,947
Siemens AG (Registered)	3,764	590,908
Smiths Group PLC	412	8,259
Teleflex, Inc.	8,900	560,789
Tredegar Corp.	6,300	101,304
		6,903,840
Machinery 1.2%		
Actuant Corp. "A"	4,600	156,446
AGCO Corp.*	18,700	1,271,226
Alfa Laval AB	125	6,954
American Railcar Industries, Inc.	6,400	123,200
Astec Industries, Inc.*	1,600	59,504
Atlas Copco AB "A"	800	11,811
Atlas Copco AB "B"	400	5,400
Badger Meter, Inc.	2,900	130,355
Barnes Group, Inc.	2,700	90,153
Bucyrus International, Inc. "A"	1,400	139,146
Caterpillar, Inc.	8,270	600,071
Columbus McKinnon Corp.*	2,100	68,502
EnPro Industries, Inc.*	2,300	70,495
FANUC Ltd.	100	9,756
GEA Group AG*	6,400	221,045
Greenbrier Companies, Inc.	2,600	57,876
KCI Konecranes Oyj	943	32,061
Komatsu Ltd.	11,400	308,234
Kone Oyj "B"	1,150	79,917
Kubota Corp.	1,000	6,845
MAN AG	79	12,999
Metso Corp.	1,913	103,242
Mitsubishi Heavy Industries Ltd.	2,000	8,559
Mueller Industries, Inc.	2,700	78,273
Parker Hannifin Corp.	29,400	2,214,114
Sandvik AB	1,200	20,396
Scania AB "B"	400	9,455
Schindler Holding AG	84	5,370
SKF AB "B"	600	10,052
Sulzer AG (Registered)	4	5,807
Sumitomo Heavy Industries Ltd.	20,000	183,757
Sun Hydraulics Corp.	2,300	58,029
Vallourec SA	790	212,671
Volvo AB "A"	600	9,879
Volvo AB "B"	1,300	21,545
Wartsila Corp. "B"	976	73,808
Zardoya Otis SA	675	19,007
		6,495,960
Marine 0.0%		
A P Moller-Maersk AS "B"	4	42,391
Kuehne & Nagel International AG (Registered)	78	7,436

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

	Shares	Value ($)
Nippon Yusen Kabushiki Kaisha	1,000	7,962
TBS International Ltd. "A"*	1,900	62,814
		120,603
Road & Rail 0.6%		
Canadian National Railway Co. (b)	2,900	137,074
Canadian National Railway Co. (b)	22,300	1,046,539
Canadian Pacific Railway Ltd.	900	58,562
Celadon Group, Inc.*	2,600	23,816
Central Japan Railway Co.	1	8,507
ComfortDelGro Corp., Ltd.	22,000	27,680
Dollar Thrifty Automotive Group, Inc.*	2,700	63,936
DSV AS	700	15,215
East Japan Railway Co.	1	8,212
FirstGroup PLC	431	6,956
Marten Transport Ltd.*	3,700	51,615
MTR Corp., Ltd.	13,000	47,379
Ryder System, Inc.	31,300	1,471,413
Union Pacific Corp.	1,900	238,678
West Japan Railway Co.	1	4,930
		3,210,512
Trading Companies & Distributors 0.2%		
Bunzl PLC	366	5,131
Electro Rent Corp.	4,000	59,400
Finning International, Inc.	1,000	29,039
Hagemeyer NV	2,670	18,219
Itochu Corp.	1,000	9,717
Marubeni Corp.	1,000	7,024
Mitsubishi Corp.	12,100	329,593
Mitsui & Co., Ltd.	1,000	21,216
Sumitomo Corp.	10,200	145,241
United Rentals, Inc.*	16,000	293,760
Wolseley PLC	527	7,727
		926,067
Transportation Infrastructure 0.1%		
Abertis Infraestructuras SA	1,434	45,940
Atlantia SpA	186	7,034
Brisa	18,169	265,919
Citra Concesiones de Infraestructuras de Transporte SA	1,277	19,156
Hamburger Hafen-und Logistik AG*	800	71,348
Hopewell Holdings Ltd.	6,000	27,586
Macquarie Infrastructure Group (Unit)	7,725	20,469
Novorossiysk Sea Trade Port (GDR) 144A*	3,400	68,000
Transurban Group (Unit)	3,144	18,813
		544,265

Information Technology 7.4%

	Shares	Value ($)
Communications Equipment 0.9%		
Alcatel-Lucent	5,596	40,683
Avocent Corp.*	3,000	69,930
Cisco Systems, Inc.*	70,270	1,902,209
Dycom Industries, Inc.*	5,700	151,905
InterDigital, Inc.*	3,500	81,655
MasTec, Inc.*	14,500	147,465
Nokia Oyj	10,036	386,431
Nortel Networks Corp.*	900	13,660
Plantronics, Inc.	4,300	111,800
QUALCOMM, Inc.	34,530	1,358,755
Research In Motion Ltd.*	1,000	114,048
Tandberg ASA	900	18,545
Tekelec*	5,800	72,500
Telefonaktiebolaget LM Ericsson "B"	54,000	126,250
		4,595,836
Computers & Peripherals 1.9%		
Apple, Inc.*	14,200	2,812,736
Dell, Inc.*	20,700	507,357
Electronics for Imaging, Inc.*	4,400	98,912
EMC Corp.*	83,630	1,549,664
Emulex Corp.*	8,300	135,456
Fujitsu Ltd.	1,000	6,692
Hewlett-Packard Co.	42,400	2,140,352
International Business Machines Corp.	18,240	1,971,744
Intevac, Inc.*	5,000	72,700
Lexmark International, Inc. "A"*	25,700	895,902
Logitech International SA (Registered)*	2,868	104,131
NEC Corp.	1,000	4,620
Synaptics, Inc.*	1,100	45,276
Toshiba Corp.	2,000	14,914
Wincor Nixdorf AG	83	7,822
		10,368,278
Electronic Equipment & Instruments 0.8%		
Arrow Electronics, Inc.*	32,700	1,284,456
Avnet, Inc.*	29,500	1,031,615
Checkpoint Systems, Inc.*	3,100	80,538
Electrocomponents PLC	3,804	15,662
FLIR Systems, Inc.*	4,200	131,460
Fujifilm Holdings Corp.	200	8,478
Hitachi Ltd.	2,000	14,653
Hoya Corp.	200	6,383
IBIDEN Co., Ltd.	100	6,907
Kingboard Chemical Holdings Ltd.	6,700	39,155
Kyocera Corp.	100	8,750
Mettler-Toledo International, Inc.*	10,100	1,149,380
Multi-Fineline Electronix, Inc.*	2,400	41,616
Murata Manufacturing Co., Ltd.	100	5,816
Nidec Corp.	100	7,424
Olympus Corp.	1,000	40,971
Rofin-Sinar Technologies, Inc.*	1,400	67,354
TDK Corp.	100	7,416
Tech Data Corp.*	2,000	75,440
Technitrol, Inc.	2,800	80,024
		4,103,498
Internet Software & Services 0.5%		
Chordiant Software, Inc.*	4,600	39,330
CMGI, Inc.*	4,500	58,905
CNET Networks, Inc.*	11,600	106,024
DealerTrack Holdings, Inc.*	1,800	60,246
EarthLink, Inc.*	13,500	95,445
Google, Inc. "A"*	2,215	1,531,628
Greenfield Online, Inc.*	6,300	92,043
InfoSpace, Inc.	2,700	50,760
Internap Network Services Corp.*	5,000	41,650
j2 Global Communications, Inc.*	4,200	88,914
Omniture, Inc.*	2,400	79,896
SAVVIS, Inc.*	2,600	72,566
Tencent Holdings Ltd.	400	3,027
United Online, Inc.	6,400	75,648
ValueClick, Inc.*	6,200	135,780
VistaPrint Ltd.*	1,900	81,415

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

	Shares	Value ($)
Vocus, Inc.*	2,200	75,966
Websense, Inc.*	3,000	50,940
Yahoo! Japan Corp.	9	4,017
		2,744,200
IT Services 0.9%		
Accenture Ltd. "A"	40,710	1,466,781
Atos Origin SA*	177	9,076
Cap Gemini SA	340	21,128
CGI Group, Inc. "A"*	600	7,046
Computer Sciences Corp.*	11,000	544,170
CSG Systems International, Inc.*	6,300	92,736
Fiserv, Inc.*	17,200	954,428
Gartner, Inc.*	4,800	84,288
iGATE Corp.*	3,500	29,645
Indra Sistemas SA	322	8,651
LogicaCMG PLC	12,089	28,187
ManTech International Corp. "A"*	1,400	61,348
NTT Data Corp.	1	4,456
Paychex, Inc.	23,900	865,658
Redecard SA (GDR) 144A	5,700	184,450
SAIC, Inc.*	10,900	219,308
Sapient Corp.*	9,400	82,814
SRA International, Inc. "A"*	3,200	94,240
Syntel, Inc.	3,100	119,412
		4,877,822
Office Electronics 0.1%		
Canon, Inc.	11,600	530,008
Konica Minolta Holdings, Inc.	500	8,800
Neopost SA	90	9,242
		548,050
Semiconductors & Semiconductor Equipment 0.8%		
Amkor Technology, Inc.*	5,300	45,209
ARM Holdings PLC	10,640	26,084
ASML Holding NV*	4,241	133,274
Asyst Technologies, Inc.*	13,700	44,662
Atheros Communications*	3,600	109,944
ATMI, Inc.*	2,300	74,175
Broadcom Corp. "A"*	19,740	516,004
Cymer, Inc.*	2,300	89,539
Entegris, Inc.*	10,900	94,067
Infineon Technologies AG*	1,742	20,369
Intel Corp.	95,500	2,546,030
Micrel, Inc.	6,700	56,615
OC Oerlikon Corp. AG (Registered)*	106	44,030
Pericom Semiconductor Corp.*	4,800	89,760
PMC-Sierra, Inc.*	12,900	84,366
RF Micro Devices, Inc.*	14,900	85,079
ROHM Co., Ltd.	100	8,704
SiRF Technology Holdings, Inc.*	4,000	100,520
Skyworks Solutions, Inc.*	13,100	111,350
STMicroelectronics NV	1,681	23,930
Tessera Technologies, Inc.*	2,200	91,520
Tokyo Electron Ltd.	100	6,108
Zoran Corp.*	6,200	139,562
		4,540,901
Software 1.5%		
Actuate Corp.*	17,300	134,421
Adobe Systems, Inc.*	33,350	1,425,046
Ansoft Corp.*	1,400	36,190
ANSYS, Inc.*	3,800	157,548
Aspen Technology, Inc.*	8,200	133,004

	Shares	Value ($)
Business Objects SA*	238	14,512
Cognos, Inc.*	200	11,575
Commvault Systems, Inc.*	4,200	88,956
Dassault Systemes SA	159	9,364
Electronic Arts, Inc.*	18,500	1,080,585
FalconStor Software, Inc.*	7,300	82,198
Jack Henry & Associates, Inc.	5,400	131,436
JDA Software Group, Inc.*	4,200	85,932
Macrovision Corp.*	2,700	49,491
MICROS Systems, Inc.*	1,200	84,192
Microsoft Corp.	73,550	2,618,380
Misys PLC	4,179	15,215
Net 1 UEPS Technologies, Inc.*	2,200	64,592
Nintendo Co., Ltd.	500	303,574
Nuance Communications, Inc.*	4,500	84,060
SAP AG	2,011	103,902
SPSS, Inc.*	3,800	136,458
Sybase, Inc.*	5,500	143,495
The Sage Group PLC	10,531	47,959
Ultimate Software Group, Inc.*	3,700	116,439
VMware, Inc. "A"* (c)	8,500	722,415
Wind River Systems, Inc.*	5,800	51,794
		7,932,733

Materials 3.1%

	Shares	Value ($)
Chemicals 1.7%		
Agrium, Inc.	100	7,262
Akzo Nobel NV	1,151	91,659
Arch Chemicals, Inc.	2,700	99,225
Asahi Kasei Corp.	1,000	6,666
BASF AG	319	47,145
Bayer AG	5,399	492,251
CF Industries Holdings, Inc.	2,700	297,162
Ciba Specialty Chemicals AG (Registered)	171	7,874
Croda International PLC	16,828	193,128
Eastman Chemical Co.	4,100	250,469
Ecolab, Inc.	25,550	1,308,416
GenTek, Inc.*	3,100	90,737
Givaudan SA (Registered)	14	13,451
Hercules, Inc.	6,500	125,775
Imperial Chemical Industries PLC	469	6,227
JSR Corp.	200	5,174
Koninklijke DSM NV	630	29,454
Kuraray Co., Ltd.	500	6,036
Linde AG	2,283	300,684
Lubrizol Corp.	15,900	861,144
Mitsubishi Chemical Holdings Corp.	1,000	7,665
Mitsui Chemicals, Inc.	1,000	6,546
Monsanto Co.	19,300	2,155,617
Nitto Denko Corp.	200	10,559
Novozymes AS "B"	1,150	129,794
Orica Ltd.	199	5,526
PolyOne Corp.*	18,600	122,388
Potash Corp of Saskatchewan, Inc.	200	29,077
Praxair, Inc.	18,300	1,623,393
Rockwood Holdings, Inc.*	2,700	89,694
Shin-Etsu Chemical Co., Ltd.	400	25,009
Showa Denko KK	2,000	7,173
Solvay SA	573	79,797
Sumitomo Chemical Co., Ltd.	1,000	8,893
Syngenta AG (Registered)	198	50,238
Teijin Ltd.	1,000	4,274
Terra Industries, Inc.*	5,400	257,904

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	Shares	Value ($)
Toray Industries, Inc.	1,000	7,769
Umicore	226	55,737
Uralkali (GDR) 144A*	5,200	193,700
W.R. Grace & Co.*	2,600	68,068
Yara International ASA	3,000	137,760
		9,316,520
Construction Materials 0.1%		
CRH PLC	3,270	112,504
Fletcher Building Ltd.	324	2,863
Holcim Ltd. (Registered)	403	42,820
Imerys SA	125	10,236
Lafarge SA	481	87,069
		255,492
Containers & Packaging 0.1%		
Amcor Ltd.	605	3,660
AptarGroup, Inc.	3,400	139,094
Gerresheimer AG*	2,285	126,945
Greif, Inc. "A"	1,400	91,518
Rock-Tenn Co. "A"	5,500	139,755
Silgan Holdings, Inc.	2,000	103,880
Sonoco Products Co.	4,100	133,988
		738,840
Metals & Mining 1.0%		
Acerinox SA	4,773	116,624
Agnico-Eagle Mines Ltd.	100	5,514
Alcoa, Inc.	26,400	964,920
Alumina Ltd.	739	4,094
Anglo American PLC	6,845	414,834
Barrick Gold Corp.	600	25,400
BHP Billiton Ltd.	1,830	64,175
BHP Billiton PLC	836	25,750
BlueScope Steel Ltd.	470	3,958
Boliden AB	1,900	23,533
Commercial Metals Co.	29,100	856,995
Compass Minerals International, Inc.	2,700	110,700
First Quantum Minerals Ltd.	100	8,620
Fording Canadian Coal Trust (Unit)	100	3,889
Fortescue Metals Group Ltd.*	700	4,554
Goldcorp, Inc.	500	17,123
JFE Holdings, Inc.	6,000	302,344
Kinross Gold Corp.*	400	7,417
Kobe Steel Ltd.	3,000	9,723
Mitsubishi Materials Corp.	1,000	4,253
Newcrest Mining Ltd.	264	7,609
Nippon Steel Corp.	5,000	30,791
Norsk Hydro ASA	1,200	16,965
Nucor Corp.	22,800	1,350,216
Outokumpu Oyj	555	16,919
Quanex Corp.	2,000	103,800
Rautaruukki Oyj	391	16,641
Reliance Steel & Aluminum Co.	2,500	135,500
Rio Tinto Ltd.	1,254	146,405
Rio Tinto PLC	357	37,402
Salzgitter AG	31	4,564
Schnitzer Steel Industries, Inc. "A"	1,500	103,695
SSAB Svenskt Stal AB "A"	1,200	32,211
Sumitomo Metal Industries Ltd.	4,000	18,471
Teck Cominco Ltd. "B"	300	10,770
ThyssenKrupp AG	248	13,841
voestalpine AG	373	26,705
Worthington Industries, Inc.	6,700	119,796
Xstrata PLC	4,641	326,802
Yamana Gold, Inc.	500	6,530
Zinifex Ltd.	323	3,483
		5,503,536
Paper & Forest Products 0.2%		
Buckeye Technologies, Inc.*	9,500	118,750
International Paper Co.	21,300	689,694
Oji Paper Co., Ltd.	1,000	4,910
Stora Enso Oyj "R"	2,637	39,135
Svenska Cellulosa AB "B"	3,400	59,792
UPM-Kymmene Oyj	2,405	48,185
		960,466

Telecommunication Services 3.0%

	Shares	Value ($)
Diversified Telecommunication Services 2.5%		
Alaska Communications Systems Group, Inc.	11,000	165,000
AT&T, Inc.	79,100	3,287,396
Atlantic Tele-Network, Inc.	3,800	128,364
BCE, Inc.	1,200	48,209
Belgacom SA	223	10,938
BT Group PLC	4,462	24,078
Cable & Wireless PLC	1,466	5,409
Cincinnati Bell, Inc.*	38,900	184,775
Deutsche Telekom AG (Registered)	6,018	131,622
Elisa Oyj	242	7,384
Embarq Corp.	9,900	490,347
France Telecom SA	7,946	285,157
Golden Telecom, Inc.*	1,000	100,950
Hellenic Telecommunications Organization SA	9,200	338,113
Koninklijke (Royal) KPN NV	12,506	226,176
Nippon Telegraph & Telephone Corp.	28	138,571
PCCW Ltd.	301,000	178,055
Portugal Telecom, SGPS SA (Registered)	9,867	128,139
Premiere Global Services, Inc.*	7,900	117,315
PT Telekomunikasi Indonesia (ADR)	8,100	340,281
Singapore Telecommunications Ltd.	96,000	263,444
Swisscom AG (Registered)	578	224,546
Tele2 AB "B"	2,500	49,725
Telecom Corp. of New Zealand Ltd.	77,310	257,992
Telecom Italia SpA	48,324	149,625
Telecom Italia SpA (RNC)	27,168	63,862
Telefonica SA	21,187	684,705
Telekom Austria AG	11,941	330,917
Telenor ASA*	6,400	151,290
TeliaSonera AB	18,500	172,052
Telstra Corp., Ltd.	47,892	196,536
Telstra Corp., Ltd. (Insurance Receipt)	24,926	69,056
Telus Corp.	300	15,028
Telus Corp. (Non-Voting Shares)	700	34,051
Time Warner Telecom, Inc. "A"*	6,900	140,001
Verizon Communications, Inc.	87,800	3,835,982
Windstream Corp.	19,600	255,192
		13,230,283
Wireless Telecommunication Services 0.5%		
America Movil SAB de CV "L" (ADR)	2,500	153,475
American Tower Corp. "A"*	13,900	592,140
Centennial Communications Corp.*	10,800	100,332

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

	Shares	Value ($)
China Mobile Ltd.	10,500	181,959
Hutchison Telecommunications International Ltd.	106,000	159,404
KDDI Corp.	13	96,529
Mobistar SA	53	4,803
NTT DoCoMo, Inc.	86	142,491
Rogers Communications, Inc. "B"	2,300	104,845
Softbank Corp.	4,000	82,333
Telephone & Data Systems, Inc.	7,600	475,760
USA Mobility, Inc.*	9,000	128,700
Vodafone Group PLC	78,496	292,556
		2,515,327
Utilities 2.1%		
Electric Utilities 1.2%		
Allegheny Energy, Inc.	9,900	629,739
American Electric Power Co., Inc.	6,700	311,952
Chubu Electric Power Co., Inc.	2,500	65,278
CLP Holdings Ltd.	13,000	88,389
E.ON AG	3,167	672,436
Edison International	20,100	1,072,737
EDP — Energias de Portugal SA	19,404	126,137
Enel SpA	22,674	267,623
FirstEnergy Corp.	33,700	2,437,858
Fortis, Inc.	2,700	79,308
Fortum Oyj	386	17,280
Hokkaido Electric Power Co., Inc.	800	17,341
Hongkong Electric Holding Ltd.	13,500	77,629
Kansai Electric Power Co., Inc.	2,900	67,662
Kyushu Electric Power Co., Inc.	1,400	34,500
Northeast Utilities	2,700	84,537
Oesterreichische Elektrizitaetswirtschafts AG "A"	68	4,736
RWE AG	266	37,274
Scottish & Southern Energy PLC	1,620	52,622
Terna-Rete Elettrica Nationale SpA	6,478	25,985
Tohoku Electric Power Co., Inc.	1,600	36,058
Tokyo Electric Power Co., Inc.	4,600	119,157
Union Fenosa SA	2,526	169,424
Westar Energy, Inc.	5,500	142,670
		6,638,332
Gas Utilities 0.2%		
Centrica PLC	6,957	49,441
Gas Natural SDG SA	2,642	153,869
Gaz de France	164	9,550
Hong Kong & China Gas Co., Ltd.	35,000	106,689
ONEOK, Inc.	7,300	326,821
Osaka Gas Co., Ltd.	8,000	31,530
Piedmont Natural Gas Co., Inc.	4,900	128,184
Snam Rete Gas SpA	4,641	29,469
South Jersey Industries, Inc.	3,900	140,751
Southwest Gas Corp.	3,700	110,149
Tokyo Gas Co., Ltd.	9,000	42,020
WGL Holdings, Inc.	4,800	157,248
		1,285,721
Independent Power Producers & Energy Traders 0.2%		
Electric Power Development Co., Ltd.	600	22,264
Iberdrola Renovables*	54,100	446,898
Iberdrola SA	18,816	284,838
International Power PLC	2,930	26,302
TransAlta Corp.	3,500	118,268
		898,570
Multi-Utilities 0.5%		
AGL Energy Ltd.	23,289	271,927
National Grid PLC	4,858	80,318
PNM Resources, Inc.	3,500	75,075
Sempra Energy	29,900	1,850,212
Suez SA	908	61,549
United Utilities PLC	1,724	25,813
Veolia Environnement	307	27,881
		2,392,775
Water Utilities 0.0%		
Kelda Group PLC	566	12,180
Severn Trent PLC	474	14,334
		26,514
Total Common Stocks (Cost $265,573,875)		**315,098,976**

Preferred Stocks 0.1%

	Shares	Value ($)
Consumer Discretionary 0.1%		
Porsche Automobil Holding SE	254	511,860
Volkswagen AG	62	9,004
		520,864
Consumer Staples 0.0%		
Henkel KGaA (Preferred)	1,524	**85,428**
Financials 0.0%		
Farm Credit Bank of Texas, Series 1, 7.561%	218,000	**227,614**
Utilities 0.0%		
RWE AG	22	**2,667**
Total Preferred Stocks (Cost $825,334)		**836,573**

Convertible Preferred Stocks 0.0%

	Shares	Value ($)
Consumer Discretionary		
ION Media Networks, Inc., 144A, 12.0% (Cost$8,344)	60,000	**3,630**

Corporate Bonds 7.3%

	Principal Amount ($)(a)	Value ($)
Consumer Discretionary 1.5%		
AAC Group Holding Corp., 14.75%, 10/1/2012 (PIK)	28,200	25,803
Affinia Group, Inc., 9.0%, 11/30/2014	150,000	135,000
AMC Entertainment, Inc., 8.0%, 3/1/2014	80,000	75,200
American Achievement Corp., 8.25%, 4/1/2012	15,000	14,625
American Media Operations, Inc., Series B, 10.25%, 5/1/2009	20,727	17,696
Asbury Automotive Group, Inc.:		
7.625%, 3/15/2017	35,000	30,975
8.0%, 3/15/2014	15,000	14,175
Ashtead Holdings PLC, 144A, 8.625%, 8/1/2015	25,000	21,875
Burlington Coat Factory Warehouse Corp., 11.125%, 4/15/2014	35,000	28,088
Cablevision Systems Corp., Series B, 9.644%**, 4/1/2009	20,000	20,225

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

	Principal Amount ($)(a)	Value ($)
Caesars Entertainment, Inc., 8.875%, 9/15/2008	105,000	108,579
CanWest MediaWorks LP, 144A, 9.25%, 8/1/2015	25,000	24,469
Carrols Corp., 9.0%, 1/15/2013	15,000	13,650
Charter Communications Holdings LLC:		
Series B, 10.25%, 9/15/2010	50,000	48,750
10.25%, 9/15/2010	175,000	171,500
11.0%, 10/1/2015	151,000	123,065
Comcast Corp., 6.3%, 11/15/2017	1,250,000	1,296,909
Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014	25,000	19,813
CSC Holdings, Inc.:		
7.25%, 7/15/2008	30,000	30,037
Series B, 8.125%, 7/15/2009	30,000	30,487
Series B, 8.125%, 8/15/2009	60,000	61,050
Denny's Corp. Holdings, Inc., 10.0%, 10/1/2012	10,000	9,613
Dollar General Corp., 144A, 10.625%, 7/15/2015	35,000	32,112
Dollarama Group LP, 144A, 10.599%**, 8/15/2012	24,000	24,000
EchoStar DBS Corp.:		
6.625%, 10/1/2014	45,000	44,775
7.125%, 2/1/2016	35,000	35,700
Fontainebleau Las Vegas Holdings LLC, 144A, 10.25%, 6/15/2015	45,000	39,037
Foot Locker, Inc., 8.5%, 1/15/2022	10,000	9,200
French Lick Resorts & Casinos LLC, 144A, 10.75%, 4/15/2014	320,000	233,600
General Motors Corp.:		
7.2%, 1/15/2011	110,000	101,200
7.4%, 9/1/2025	30,000	21,750
8.375%, 7/15/2033	75,000	60,375
Goodyear Tire & Rubber Co., 11.25%, 3/1/2011	190,000	201,875
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015	30,000	29,700
Group 1 Automotive, Inc., 8.25%, 8/15/2013	15,000	14,475
Hanesbrands, Inc., Series B, 8.204%**, 12/15/2014	45,000	44,550
Hertz Corp.:		
8.875%, 1/1/2014	75,000	76,031
10.5%, 1/1/2016	20,000	20,700
Idearc, Inc., 8.0%, 11/15/2016	155,000	142,212
Indianapolis Downs LLC, 144A, 11.0%, 11/1/2012	20,000	19,300
ION Media Networks, Inc., 144A, 11.493%**, 1/15/2013	85,000	83,619
Isle of Capri Casinos, Inc., 7.0%, 3/1/2014	50,000	41,000
Jarden Corp., 7.5%, 5/1/2017	25,000	21,500
Lamar Media Corp., 144A, 6.625%, 8/15/2015	20,000	19,450
Liberty Media LLC:		
5.7%, 5/15/2013	20,000	18,528
8.25%, 2/1/2030	45,000	43,184
8.5%, 7/15/2029	50,000	48,975
Majestic Star Casino LLC, 9.5%, 10/15/2010	5,000	4,725
MediMedia USA, Inc., 144A, 11.375%, 11/15/2014	15,000	15,450
Metaldyne Corp., 11.0%, 6/15/2012	10,000	6,450
MGM MIRAGE:		
6.75%, 9/1/2012	35,000	34,081
8.375%, 2/1/2011	80,000	81,800
MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010	55,000	55,000
News America, Inc., 6.15%, 3/1/2037	750,000	724,492
Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012	85,000	76,500
Penske Automotive Group, Inc., 7.75%, 12/15/2016	80,000	74,800
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013	35,000	35,612
Quebecor Media, Inc., 144A, 7.75%, 3/15/2016	20,000	19,200
Quebecor World, Inc., 144A, 9.75%, 1/15/2015	25,000	18,781
Reader's Digest Association, Inc., 144A, 9.0%, 2/15/2017	40,000	33,500
Sabre Holdings Corp., 8.35%, 3/15/2016	30,000	26,700
Seminole Hard Rock Entertainment, Inc., 144A, 7.491%**, 3/15/2014	35,000	33,425
Shingle Springs Tribal Gaming Authority, 144A, 9.375%, 6/15/2015	25,000	24,250
Simmons Co.:		
Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014	105,000	77,700
7.875%, 1/15/2014	20,000	18,500
Sinclair Television Group, Inc., 8.0%, 3/15/2012	16,000	16,300
Sirius Satellite Radio, Inc., 9.625%, 8/1/2013	45,000	42,525
Six Flags, Inc., 9.75%, 4/15/2013	15,000	11,250
Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013	35,000	34,037
Station Casinos, Inc., 6.5%, 2/1/2014	65,000	48,750
TCI Communications, Inc., 8.75%, 8/1/2015	135,000	157,033
Time Warner Cable, Inc., 5.4%, 7/2/2012	810,000	811,628
Toys "R" Us, Inc., 7.375%, 10/15/2018	25,000	18,063
Travelport LLC:		
9.749%**, 9/1/2014	25,000	24,188
9.875%, 9/1/2014	25,000	25,375
Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015	70,000	53,287
United Components, Inc., 9.375%, 6/15/2013	5,000	4,938
Univision Communications, Inc., 144A, 9.75%, 3/15/2015 (PIK)	115,000	104,794
Vitro SAB de CV:		
8.625%, 2/1/2012	20,000	18,800
9.125%, 2/1/2017	40,000	36,800
Series A, 11.75%, 11/1/2013	15,000	15,638
XM Satellite Radio, Inc., 9.75%, 5/1/2014	65,000	62,887
Young Broadcasting, Inc., 8.75%, 1/15/2014	150,000	106,687

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	Principal Amount ($)(a)	Value ($)
Yum! Brands, Inc.:		
6.25%, 3/15/2018	500,000	506,368
6.875%, 11/15/2037	500,000	497,682
		7,706,428
Consumer Staples 0.4%		
Alliance One International, Inc., 8.5%, 5/15/2012	15,000	14,625
CVS Caremark Corp., 6.25%, 6/1/2027	750,000	751,622
Del Laboratories, Inc., 8.0%, 2/1/2012	70,000	72,800
Delhaize America, Inc.:		
8.05%, 4/15/2027	30,000	31,625
9.0%, 4/15/2031	201,000	232,391
General Nutrition Centers, Inc., 10.009%**, 3/15/2014 (PIK)	35,000	33,075
Harry & David Holdings, Inc., 10.124%**, 3/1/2012	30,000	28,200
North Atlantic Trading Co., 144A, 10.0%, 3/1/2012	348,750	320,850
Pierre Foods, Inc., 9.875%, 7/15/2012	20,000	14,600
Pilgrim's Pride Corp., 7.625%, 5/1/2015	15,000	14,738
Rite Aid Corp., 7.5%, 3/1/2017	50,000	44,062
Smithfield Foods, Inc., 7.75%, 7/1/2017	40,000	38,700
Viskase Companies, Inc., 11.5%, 6/15/2011	480,000	480,000
		2,077,288
Energy 0.5%		
Belden & Blake Corp., 8.75%, 7/15/2012	145,000	146,450
Chaparral Energy, Inc., 8.5%, 12/1/2015	40,000	36,000
Chesapeake Energy Corp.:		
6.25%, 1/15/2018	20,000	19,200
6.875%, 1/15/2016	100,000	99,000
7.75%, 1/15/2015	15,000	15,300
Cimarex Energy Co., 7.125%, 5/1/2017	25,000	24,563
Delta Petroleum Corp., 7.0%, 4/1/2015	75,000	64,125
Dynegy Holdings, Inc.:		
6.875%, 4/1/2011	10,000	9,650
8.375%, 5/1/2016	60,000	58,650
Energy Partners Ltd., 9.75%, 4/15/2014	25,000	23,625
Frontier Oil Corp., 6.625%, 10/1/2011	25,000	24,875
Kinder Morgan Energy Partners LP, 6.0%, 2/1/2017	381,000	380,978
Mariner Energy, Inc.:		
7.5%, 4/15/2013	20,000	19,250
8.0%, 5/15/2017	20,000	19,025
OPTI Canada, Inc.:		
144A, 7.875%, 12/15/2014	40,000	39,100
144A, 8.25%, 12/15/2014	30,000	29,700
Plains Exploration & Production Co., 7.0%, 3/15/2017	15,000	14,344
Quicksilver Resources, Inc., 7.125%, 4/1/2016	20,000	19,650
Sabine Pass LNG LP, 7.5%, 11/30/2016	110,000	105,050
Southern Natural Gas Co., 144A, 5.9%, 4/1/2017	895,000	880,292

	Principal Amount ($)(a)	Value ($)
Stone Energy Corp., 6.75%, 12/15/2014	90,000	83,475
Tennessee Gas Pipeline Co., 7.625%, 4/1/2037	25,000	26,890
Tesoro Corp., 6.5%, 6/1/2017	40,000	39,600
VeraSun Energy Corp., 144A, 9.375%, 6/1/2017	20,000	17,450
Whiting Petroleum Corp.:		
7.0%, 2/1/2014	30,000	29,700
7.25%, 5/1/2012	50,000	49,250
7.25%, 5/1/2013	10,000	9,850
Williams Companies, Inc.:		
8.125%, 3/15/2012	100,000	108,875
8.75%, 3/15/2032	135,000	165,038
Williams Partners LP, 7.25%, 2/1/2017	25,000	25,750
		2,584,705
Financials 1.9%		
Algoma Acquisition Corp., 144A, 9.875%, 6/15/2015	85,000	69,700
Ashton Woods USA LLC, 9.5%, 10/1/2015	230,000	147,200
Buffalo Thunder Development Authority, 144A, 9.375%, 12/15/2014	15,000	13,350
Conproca SA de CV, Series REG S, 12.0%, 6/16/2010	405,000	439,425
Daimler Finance North America LLC, Series E, 5.441%**, 10/31/2008	389,000	388,252
E*TRADE Financial Corp.:		
7.375%, 9/15/2013	50,000	38,500
7.875%, 12/1/2015	80,000	61,000
8.0%, 6/15/2011	65,000	56,387
Erac USA Finance Co.:		
144A, 6.375%, 10/15/2017	500,000	483,056
144A, 7.0%, 10/15/2037	750,000	681,172
FIA Card Services NA, 7.125%, 11/15/2012	1,250,000	1,358,065
Ford Motor Credit Co., LLC:		
7.25%, 10/25/2011	155,000	134,255
7.375%, 10/28/2009	380,000	357,673
7.875%, 6/15/2010	105,000	96,880
GMAC LLC, 6.875%, 9/15/2011	410,000	350,753
Hawker Beechcraft Acquisition Co., LLC:		
144A, 8.5%, 4/1/2015	55,000	55,000
144A, 9.75%, 4/1/2017	40,000	39,800
Hexion US Finance Corp., 9.75%, 11/15/2014	35,000	37,800
Hub International Holdings, Inc., 144A, 9.0%, 12/15/2014	20,000	17,850
Inmarsat Finance PLC, Step-up Coupon, 0% to 11/15/2008, 10.375% to 11/15/2012	30,000	29,137
iPayment, Inc., 9.75%, 5/15/2014	80,000	74,800
JPMorgan Chase Bank NA, 6.0%, 10/1/2017	750,000	762,766
KAR Holdings, Inc.:		
144A, 8.75%, 5/1/2014	30,000	27,600
144A, 10.0%, 5/1/2015	20,000	17,850
Lehman Brothers Holdings, Inc., 7.0%, 9/27/2027	750,000	761,215
Local TV Finance LLC, 144A, 9.25%, 6/15/2015 (PIK)	25,000	23,875

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	Principal Amount ($)(a)	Value ($)
Morgan Stanley, Series F, 5.75%, 8/31/2012	1,250,000	1,275,951
New ASAT (Finance) Ltd., 9.25%, 2/1/2011	95,000	76,237
Nuveen Investments, Inc., 144A, 10.5%, 11/15/2015	55,000	54,794
Pinnacle Foods Finance LLC, 144A, 9.25%, 4/1/2015	25,000	22,813
Popular North America, Inc., Series E, 3.875%, 10/1/2008	1,000,000	990,424
Realogy Corp., 144A, 12.375%, 4/15/2015	20,000	12,600
Residential Capital LLC:		
5.646%**, 6/9/2008	30,000	25,650
7.625%, 11/21/2008	150,000	119,250
7.782%**, 11/21/2008	235,000	186,825
The Goldman Sachs Group, Inc., 6.75%, 10/1/2037	500,000	489,889
Triad Acquisition Corp., Series B, 11.125%, 5/1/2013	55,000	40,700
Tropicana Entertainment LLC, 9.625%, 12/15/2014	115,000	73,025
U.S.I. Holdings Corp.:		
144A, 8.744%**, 11/15/2014	15,000	12,825
144A, 9.75%, 5/15/2015	10,000	8,050
UCI Holdco, Inc., 12.491%**, 12/15/2013 (PIK)	36,239	34,246
Universal City Development Partners, 11.75%, 4/1/2010	135,000	139,725
Yankee Acquisition Corp., Series B, 8.5%, 2/15/2015	20,000	18,425
		10,104,790
Health Care 0.4%		
Abbott Laboratories, 5.6%, 11/30/2017	1,250,000	1,284,276
Advanced Medical Optics, Inc., 7.5%, 5/1/2017	45,000	41,400
Bausch & Lomb, Inc., 144A, 9.875%, 11/1/2015	45,000	45,675
Boston Scientific Corp., 6.0%, 6/15/2011	25,000	24,125
Community Health Systems, Inc., 8.875%, 7/15/2015	215,000	219,031
HCA, Inc.:		
9.125%, 11/15/2014	45,000	46,800
9.25%, 11/15/2016	90,000	94,500
9.625%, 11/15/2016 (PIK)	45,000	47,588
HEALTHSOUTH Corp., 10.75%, 6/15/2016	40,000	41,800
IASIS Healthcare LLC, 8.75%, 6/15/2014	20,000	20,000
Psychiatric Solutions, Inc., 7.75%, 7/15/2015	25,000	24,938
Sun Healthcare Group, Inc., 9.125%, 4/15/2015	25,000	25,188
Surgical Care Affiliates, Inc., 144A, 8.875%, 7/15/2015 (PIK)	90,000	81,900
The Cooper Companies, Inc., 7.125%, 2/15/2015	50,000	48,625
Universal Hospital Services, Inc., 8.5%, 6/1/2015 (PIK)	20,000	20,200
Vanguard Health Holding Co. I, LLC, Step-up Coupon, 0% to 10/1/2009, 11.25% to 10/1/2015	25,000	18,500
Vanguard Health Holding Co. II, LLC, 9.0%, 10/1/2014	85,000	81,812
		2,166,358

	Principal Amount ($)(a)	Value ($)
Industrials 0.4%		
Actuant Corp., 144A, 6.875%, 6/15/2017	20,000	19,800
Aleris International, Inc., 9.0%, 12/15/2014 (PIK)	35,000	29,225
Allied Security Escrow Corp., 11.375%, 7/15/2011	130,000	122,200
American Color Graphics, Inc., 10.0%, 6/15/2010	140,000	75,600
American Color Graphics, Inc., Promissory Note due 3/15/2008 (h)	8,400	4,536
ARAMARK Corp.:		
8.411%**, 2/1/2015	35,000	34,125
8.5%, 2/1/2015	45,000	45,562
Baldor Electric Co., 8.625%, 2/15/2017	25,000	25,750
Belden, Inc., 7.0%, 3/15/2017	25,000	24,375
Bristow Group, Inc., 144A, 7.5%, 9/15/2017	30,000	30,150
Browning-Ferris Industries, Inc., 7.4%, 9/15/2035	250,000	232,500
Building Materials Corp. of America, 7.75%, 8/1/2014	35,000	26,775
Cenveo Corp., 7.875%, 12/1/2013	65,000	57,931
Congoleum Corp., 8.625%, 8/1/2008*	190,000	142,500
DRS Technologies, Inc.:		
6.625%, 2/1/2016	15,000	14,812
6.875%, 11/1/2013	75,000	74,625
7.625%, 2/1/2018	90,000	91,125
Education Management LLC, 8.75%, 6/1/2014	25,000	25,094
Esco Corp., 144A, 8.625%, 12/15/2013	55,000	55,000
General Cable Corp., 7.125%, 4/1/2017	15,000	14,700
Great Lakes Dredge & Dock Co., 7.75%, 12/15/2013	20,000	18,700
Harland Clarke Holdings Corp., 9.5%, 5/15/2015	25,000	21,625
Iron Mountain, Inc., 8.75%, 7/15/2018	20,000	21,025
K. Hovnanian Enterprises, Inc.:		
6.25%, 1/15/2016	100,000	68,000
8.875%, 4/1/2012	95,000	54,150
Kansas City Southern de Mexico SA de CV:		
144A, 7.375%, 6/1/2014	20,000	19,450
9.375%, 5/1/2012	70,000	73,325
Kansas City Southern Railway Co.:		
7.5%, 6/15/2009	20,000	20,025
9.5%, 10/1/2008	175,000	178,500
Mobile Services Storage Group, Inc., 9.75%, 8/1/2014	50,000	46,000
Navios Maritime Holdings, Inc., 9.5%, 12/15/2014	40,000	40,900
Panolam Industries International, Inc., 10.75%, 10/1/2013	45,000	39,150
R.H. Donnelley Corp., 144A, 8.875%, 10/15/2017	100,000	92,500
Rainbow National Services LLC, 144A, 10.375%, 9/1/2014	9,000	9,754
RBS Global & Rexnord Corp., 9.5%, 8/1/2014	25,000	24,750
Ship Finance International Ltd., 8.5%, 12/15/2013	25,000	25,344

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	Principal Amount ($)(a)	Value ($)
Swift Transportation Co., 144A, 12.5%, 5/15/2017	20,000	10,325
Tenneco, Inc., 144A, 8.125%, 11/15/2015	15,000	14,850
Titan International, Inc., 8.0%, 1/15/2012	95,000	91,675
TransDigm, Inc., 7.75%, 7/15/2014	45,000	45,675
U.S. Concrete, Inc., 8.375%, 4/1/2014	30,000	26,250
United Rentals North America, Inc.:		
6.5%, 2/15/2012	15,000	13,613
7.0%, 2/15/2014	80,000	67,000
Xerox Capital Trust I, 8.0%, 2/1/2027	55,000	54,930
		2,223,901

Information Technology 0.3%

	Principal Amount ($)(a)	Value ($)
Alion Science & Technology Corp., 10.25%, 2/1/2015	60,000	51,150
First Data Corp., 144A, 9.875%, 9/24/2015	35,000	32,550
Freescale Semiconductor, Inc., 8.875%, 12/15/2014	25,000	22,313
L-3 Communications Corp.:		
5.875%, 1/15/2015	90,000	86,850
Series B, 6.375%, 10/15/2015	40,000	39,400
Lucent Technologies, Inc., 6.45%, 3/15/2029	90,000	74,362
MasTec, Inc., 7.625%, 2/1/2017	100,000	94,000
Sanmina-SCI Corp., 8.125%, 3/1/2016	15,000	13,294
Seagate Technology HDD Holdings, 6.8%, 10/1/2016	50,000	48,750
SunGard Data Systems, Inc., 10.25%, 8/15/2015	70,000	71,575
Tyco Electronics Group SA:		
144A, 6.55%, 10/1/2017	500,000	514,285
144A, 7.125%, 10/1/2037	500,000	526,374
Unisys Corp., 7.875%, 4/1/2008	160,000	159,800
Vangent, Inc., 9.625%, 2/15/2015	60,000	51,450
		1,786,153

Materials 0.6%

	Principal Amount ($)(a)	Value ($)
Appleton Papers, Inc., Series B, 8.125%, 6/15/2011	15,000	14,719
ARCO Chemical Co., 9.8%, 2/1/2020	675,000	654,750
Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014	50,000	32,000
Cascades, Inc., 7.25%, 2/15/2013	77,000	72,187
Chemtura Corp., 6.875%, 6/1/2016	45,000	42,300
CPG International I, Inc.:		
10.5%, 7/1/2013	75,000	70,875
12.13%*, 7/1/2012	35,000	33,600
Exopack Holding Corp., 11.25%, 2/1/2014	90,000	88,200
Freeport-McMoRan Copper & Gold, Inc., 8.375%, 4/1/2017	40,000	42,900
GEO Specialty Chemicals, Inc., 144A, 13.729%**, 12/31/2009 (d)	491,000	368,250
Georgia-Pacific Corp., 144A, 7.125%, 1/15/2017	20,000	19,450
Gibraltar Industries, Inc., Series B, 8.0%, 12/1/2015	75,000	67,500
Hexcel Corp., 6.75%, 2/1/2015	110,000	107,800
Huntsman LLC, 11.625%, 10/15/2010	382,000	404,920
Innophos, Inc., 8.875%, 8/15/2014	15,000	14,925
Jefferson Smurfit Corp., 8.25%, 10/1/2012	40,000	39,400
Koppers Holdings, Inc., Step-up Coupon, 0% to 11/15/2009, 9.875% to 11/15/2014	70,000	58,800
Massey Energy Co.:		
6.625%, 11/15/2010	10,000	9,775
6.875%, 12/15/2013	40,000	37,700
Metals USA Holdings Corp., 144A, 11.231%**, 7/1/2012 (PIK)	105,000	86,100
Millar Western Forest Products Ltd., 7.75%, 11/15/2013	15,000	11,175
Momentive Performance Materials, Inc., 144A, 9.75%, 12/1/2014	35,000	32,200
Mueller Water Products, Inc., 7.375%, 6/1/2017	15,000	13,406
Neenah Foundry Co., 9.5%, 1/1/2017	20,000	16,100
NewMarket Corp., 7.125%, 12/15/2016	175,000	173,250
Radnor Holdings Corp., 11.0%, 3/15/2010*	40,000	300
Smurfit-Stone Container Enterprises, Inc.:		
8.0%, 3/15/2017	50,000	48,313
8.375%, 7/1/2012	25,000	24,813
Steel Dynamics, Inc.:		
144A, 6.75%, 4/1/2015	40,000	38,600
144A, 7.375%, 11/1/2012	10,000	10,050
Terra Capital, Inc., Series B, 7.0%, 2/1/2017	60,000	58,650
The Mosaic Co., 144A, 7.625%, 12/1/2014	45,000	48,150
TriMas Corp., 9.875%, 6/15/2012	19,000	18,525
Witco Corp., 6.875%, 2/1/2026	60,000	48,300
Wolverine Tube, Inc., 10.5%, 4/1/2009	130,000	123,500
		2,931,483

Telecommunication Services 0.6%

	Principal Amount ($)(a)	Value ($)
AT&T, Inc., 6.3%, 1/15/2038	750,000	761,995
BCM Ireland Preferred Equity Limited, 144A, 11.58%**, 2/15/2017 (PIK) EUR	81,523	109,641
Cell C Property Ltd., 144A, 11.0%, 7/1/2015	105,000	89,775
Centennial Communications Corp.:		
10.0%, 1/1/2013	65,000	67,600
10.125%, 6/15/2013	20,000	21,000
Cincinnati Bell, Inc.:		
7.25%, 7/15/2013	55,000	55,138
8.375%, 1/15/2014	30,000	29,250
Cricket Communications, Inc., 144A, 9.375%, 11/1/2014	65,000	60,937
Embratel, Series B, 11.0%, 12/15/2008	34,000	35,615
Intelsat Bermuda Ltd.:		
8.886%**, 1/15/2015	5,000	5,013
9.25%, 6/15/2016	15,000	15,075
11.25%, 6/15/2016	50,000	51,625
Intelsat Corp., 9.0%, 6/15/2016	20,000	20,150
Intelsat Ltd., 5.25%, 11/1/2008	20,000	19,750
Intelsat Subsidiary Holding Co., Ltd., 8.25%, 1/15/2013	50,000	50,250

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		Principal Amount ($)(a)	Value ($)
iPCS, Inc., 7.036%**, 5/1/2013		15,000	14,138
MetroPCS Wireless, Inc., 9.25%, 11/1/2014		60,000	56,400
Millicom International Cellular SA, 10.0%, 12/1/2013		120,000	127,800
Nortel Networks Ltd., 144A, 9.493%**, 7/15/2011		50,000	48,750
Qwest Corp., 7.25%, 9/15/2025		10,000	9,400
Rural Cellular Corp., 9.875%, 2/1/2010		50,000	51,875
Stratos Global Corp., 9.875%, 2/15/2013		15,000	15,825
SunCom Wireless Holdings, Inc., 8.5%, 6/1/2013		160,000	165,600
Telefonica Emisiones SAU, 6.221%, 7/3/2017		1,250,000	1,298,740
US Unwired, Inc., Series B, 10.0%, 6/15/2012		60,000	63,610
Virgin Media Finance PLC:			
8.75%, 4/15/2014	EUR	45,000	64,312
8.75%, 4/15/2014		65,000	64,512
West Corp., 9.5%, 10/15/2014		30,000	29,400
			3,403,176

Utilities 0.7%

	Principal Amount ($)(a)	Value ($)
AES Corp.:		
144A, 8.0%, 10/15/2017	55,000	56,238
144A, 8.75%, 5/15/2013	162,000	169,087
Allegheny Energy Supply Co., LLC, 144A, 8.25%, 4/15/2012	210,000	224,175
American Electric Power Co., Inc., Series C, 5.375%, 3/15/2010	1,000,000	1,014,320
CMS Energy Corp., 8.5%, 4/15/2011	125,000	134,651
DPL, Inc., 6.875%, 9/1/2011	500,000	531,821
Edison Mission Energy, 7.0%, 5/15/2017	45,000	44,213
Energy Future Holdings Corp., 144A, 10.875%, 11/1/2017	80,000	80,400
Florida Power & Light Co., 5.55%, 11/1/2017	500,000	510,051
Mirant Americas Generation LLC, 8.3%, 5/1/2011	45,000	45,113
Mirant North America LLC, 7.375%, 12/31/2013	20,000	20,050
NRG Energy, Inc.:		
7.25%, 2/1/2014	250,000	243,750
7.375%, 2/1/2016	485,000	472,875
PSE&G Energy Holdings LLC, 10.0%, 10/1/2009	105,000	110,671
Regency Energy Partners LP, 8.375%, 12/15/2013	36,000	37,080
Reliant Energy, Inc., 7.875%, 6/15/2017	50,000	49,500
Sierra Pacific Resources:		
6.75%, 8/15/2017	60,000	60,695
8.625%, 3/15/2014	33,000	35,262
Texas Competitive Electric Holdings Co., LLC, 144A, 10.25%, 11/1/2015	120,000	118,800
		3,958,752
Total Corporate Bonds (Cost $39,774,703)		**38,943,034**

Asset Backed 2.4%

Automobile Receivables 0.2%

	Principal Amount ($)(a)	Value ($)
Capital Auto Receivables Asset Trust, "B", Series 2006-1, 5.26%, 10/15/2010	566,000	572,429
Ford Credit Auto Owner Trust, "B", Series 2007-B, 5.69%, 11/15/2012	379,000	377,995
		950,424

Credit Card Receivables 1.8%

	Principal Amount ($)(a)	Value ($)
Capital One Multi-Asset Execution Trust, "A7", Series 2007-A7, 5.75%, 7/15/2020	2,187,000	2,200,534
Chase Issuance Trust, "A", Series 2007-A17, 5.12%, 10/15/2014	3,000,000	3,072,558
Citibank Credit Card Issuance Trust, "B5", Series 2007-B5, 5.87%**, 11/7/2014	2,250,000	2,199,210
MBNA Credit Card Master Note Trust, "B1", Series 2004-B1, 4.45%, 8/15/2016	2,050,000	1,938,341
		9,410,643

Home Equity Loans 0.4%

	Principal Amount ($)(a)	Value ($)
Countrywide Asset-Backed Certificates, "1AF2", Series 2005-17, 5.363%, 5/25/2036	689,000	683,495
Credit-Based Asset Servicing and Securitization, "AF2", Series 2006-CB2, 5.501%, 12/25/2036	1,613,000	1,593,122
		2,276,617
Total Asset Backed (Cost $12,581,001)		**12,637,684**

Mortgage Backed Securities Pass-Throughs 1.1%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
5.736%**, 4/1/2037	2,475,465	2,513,884
6.0%, 8/1/2035	645,670	650,387
Federal National Mortgage Association:		
4.5%, with various maturities from 11/1/2028 until 9/1/2035	2,396,335	2,274,824
6.0%, 1/1/2024	135,309	137,825
6.5%, 5/1/2017	97,472	100,460
8.0%, 9/1/2015	151,967	162,954
Total Mortgage Backed Securities Pass-Throughs (Cost $5,863,036)		**5,840,334**

Commercial and Non-Agency Mortgage-Backed Securities 16.0%

	Principal Amount ($)(a)	Value ($)
Adjustable Rate Mortgage Trust, "3A31", Series 2005-10, 5.416%**, 1/25/2036	1,000,000	952,475
Banc of America Mortgage Securities, "2A6", Series 2004-G, 4.657%**, 8/25/2034	2,275,000	2,272,043

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

	Principal Amount ($)(a)	Value ($)
Bear Stearns Adjustable Rate Mortgage Trust:		
"13A2", Series 2004-1, 4.272%**, 4/25/2034	2,418,430	2,375,316
"12A5", Series 2004-1, 4.369%**, 4/25/2034	1,900,314	1,887,263
Bear Stearns Commercial Mortgage Securities:		
"A3", Series 2006-T24, 5.531%, 10/12/2041	1,800,000	1,812,078
"A4", Series 2007-PW17, 5.694%, 6/11/2050	826,000	843,405
"A4", Series 2007-PW18, 5.7%, 6/11/2050	1,250,000	1,268,502
Citicorp Mortgage Securities, Inc., "2A1", Series 2006-5, 5.5%, 10/25/2021	7,266,752	7,241,776
Citigroup Mortgage Loan Trust, Inc.:		
"1A1A", Series 2007-AR5, 5.622%**, 4/25/2037	1,817,529	1,827,111
"1CB2", Series 2004-NCM2, 6.75%, 8/25/2034	283,816	291,709
Countrywide Alternative Loan Trust:		
"A1", Series 2004-1T1, 5.0%, 2/25/2034	474,062	466,211
"3A11", Series 2005-20CB, 5.165%**, 7/25/2035	2,024,288	2,008,486
"1A5", Series 2003-J1, 5.25%, 10/25/2033	456,929	456,830
"4A3", Series 2005-43, 5.714%**, 10/25/2035	681,751	671,526
"A1", Series 2004-35T2, 6.0%, 2/25/2035	508,503	517,082
"3A5", Series 2005-28CB, 6.0%, 8/25/2035	2,165,173	2,174,418
"1A4", Series 2006-43CB, 6.0%, 2/25/2037	1,199,695	1,196,854
Countrywide Home Loans, "A6", Series 2003-57, 5.5%, 1/25/2034	127,794	127,813
CS First Boston Mortgage Securities Corp., "A3", Series 2005-C5, 5.1%**, 8/15/2038	2,000,000	1,978,949
First Horizon Alternative Mortgage Securities Trust, "1A7", Series 2006-FA8, 6.0%, 2/25/2037	2,050,000	2,055,251
First Horizon Mortgage Pass-Through Trust, "1A15", Series 2006-2, 6.0%, 8/25/2036	2,774,053	2,801,334
Greenwich Capital Commercial Funding Corp.:		
"A4", Series 2005-GG3, 4.799%, 8/10/2042	2,000,000	1,924,070
"A2", Series 2007-GG9, 5.381%, 3/10/2039	1,250,000	1,256,487
"AM", Series 2007-GG11, 5.867%, 12/10/2049	1,500,000	1,506,592
GS Mortgage Securities Corp. II:		
"AAB", Series 2006-GG8, 5.535%, 11/10/2039	1,800,000	1,822,216
"A4", Series 2007-GG10, 5.799%**, 8/10/2045	4,500,000	4,654,219
GSR Mortgage Loan Trust, "4A5", Series 2005-AR6, 4.551%**, 9/25/2035	1,025,000	1,008,940
JPMorgan Alternative Loan Trust, "2A4", Series 2006-S1, 5.5%, 2/25/2021	2,625,243	2,599,875
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"ASB", Series 2007-CB20, 5.688%, 2/12/2051	3,750,000	3,816,213
"A4", Series 2007-C1, 5.716%, 2/15/2051	1,000,000	1,015,095
"A4", Series 2007-CB20, 5.794%, 2/12/2051	295,000	303,314
LB-UBS Commercial Mortgage Trust:		
"A2", Series 2005-C2, 4.821%, 4/15/2030	133,125	132,727
"A2", Series 2006-C7, 5.3%, 11/15/2038	880,000	883,534
"A4", Series 2007-C6, 5.858%, 7/15/2040	1,385,000	1,432,435
Master Adjustable Rate Mortgages Trust, "2A1", Series 2007-1, 5.976%**, 11/25/2036	2,974,077	3,007,327
Master Alternative Loans Trust, "5A1", Series 2005-1, 5.5%, 1/25/2020	895,040	881,078
Merrill Lynch/Countrywide Commercial Mortgage Trust, "A2", Series 2006-4, 5.112%, 12/12/2049	795,000	792,252
MLCC Mortgage Investors, Inc., "2A", Series 2005-2, 4.25%**, 10/25/2035	2,957,119	2,897,184
Structured Adjustable Rate Mortgage Loan Trust:		
"6A3", Series 2005-21, 5.4%, 11/25/2035	900,000	841,292
"1A1", Series 2005-17, 5.714%**, 8/25/2035	1,164,925	1,158,559
Structured Asset Securities Corp., "4A1", Series 2005-6, 5.0%, 5/25/2035	142,615	136,866
Wachovia Bank Commercial Mortgage Trust:		
"APB", Series 2006-C23, 5.446%, 1/15/2045	2,100,000	2,115,130
"APB", Series 2007-C34, 5.617%, 5/15/2046	2,875,000	2,910,838
Wachovia Mortgage Loan Trust LLC, "1A1", Series 2006-A, 5.477%**, 5/20/2036	2,753,568	2,733,514
Washington Mutual Mortgage Pass-Through Certificates Trust:		
"A6", Series 2004-AR4, 3.795%**, 6/25/2034	190,000	187,715
"A6", Series 2003-AR10, 4.056%**, 10/25/2033	1,620,000	1,610,542
"1A6", Series 2005-AR12, 4.835%**, 10/25/2035	1,880,000	1,862,356
"1A3", Series 2005-AR16, 5.101%**, 12/25/2035	1,005,000	1,001,450
Wells Fargo Mortgage Backed Securities Trust:		
"A3", Series 2006-1, 5.0%, 3/25/2021	1,617,717	1,594,969
"A1", Series 2005-6, 5.25%, 8/25/2035	2,318,388	2,284,234
"1A1", Series 2006-AR12, 6.025%**, 9/25/2036	2,139,103	2,164,610
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $85,281,732)		**85,762,065**

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

	Principal Amount ($)(a)	Value ($)
Collateralized Mortgage Obligations 2.8%		
Fannie Mae Whole Loan, "1A1", Series 2004-W15, 6.0%, 8/25/2044	695,010	721,875
Federal Home Loan Mortgage Corp.:		
"OS", Series 3102, Principal Only, Zero Coupon, 1/15/2036	4,950,000	3,958,736
"DE", Series 3027, 5.0%, 9/15/2025	2,500,000	2,385,703
"H", Series 2278, 6.5%, 1/15/2031	22,715	23,454
Federal National Mortgage Association, "CA", Series 2003-2, 5.0%, 12/25/2016	3,736,861	3,736,089
Government National Mortgage Association:		
"CK", Series 2007-31, 5.0%, 5/16/2037	3,000,000	2,890,703
"Z" Series, 2007- 72, 5.5%, 9/20/2035	1,716,124	1,555,674
Total Collateralized Mortgage Obligations (Cost $14,879,353)		**15,272,234**
Senior Loans 0.3%**		
Advanced Medical Optics, Inc, Term Loan B, LIBOR plus 1.75%, 5.974%, 4/2/2014	15,700	14,792
Aleris International, Inc., Term Loan B, LIBOR plus 2.375%, 6.599%, 12/14/2013	59,849	54,402
Bausch & Lomb, Inc.:		
Term Delay Draw, LIBOR plus 3.25%, 7.474%, 4/11/2015	10,000	9,975
Term Loan B, LIBOR plus 3.25%, 7.474%, 4/11/2015	44,000	43,860
Buffets, Inc.:		
Letter of Credit, 7.7%, 5/1/2013	23,489	19,519
Term Loan B, 7.74%, 1/13/2011	206,092	171,263
Dollar General Corp., Term Loan B1, LIBOR plus 2.75%, 6.974%, 7/6/2014	25,000	23,017
Energy Future Holdings Corp.:		
Term Loan B1, LIBOR plus 3.5%, 7.724%, 10/10/2014	250,000	245,694
Term Loan B3, LIBOR plus 3.5%, 7.724%, 10/10/2014	165,000	162,629
First Data Corp., Term Loan B1, LIBOR plus 2.75%, 6.974%, 9/17/2014	84,400	80,214
General Nutrition Centers, Inc., Term Loan B, LIBOR plus 2.25%, 6.474%, 9/16/2013	14,887	13,597
Golden Nugget, 8.22%, 6/16/2014	35,000	31,850
Hawker Beechcraft, Inc.:		
Letter of Credit, LIBOR plus 2.0%, 6.224%, 3/26/2014	1,959	1,881
Term Loan, LIBOR plus 2.0%, 6.224%, 3/26/2014	22,983	21,879
HCA, Inc., Term Loan A1, 6.83%, 11/18/2012	89,675	85,304
IASIS Healthcare LLC, 10.315%, 6/15/2014	73,804	69,561
Local TV On Satellite LLC, Term Loan B, LIBOR plus 2.25%, 6.474%, 5/7/2013	14,775	13,944
Longview Power LLC:		
Demand Draw, 7.125%, 4/1/2014	17,448	16,902
Term Loan B, 7.25%, 4/1/2014	25,000	24,229
Letter of Credit, 7.125%, 4/1/2014	13,333	12,919
Rail America, Inc., 7.81%, 10/2/2008	45,000	44,213
Sabre, Inc., Term Loan B, LIBOR plus 2.25%, 6.474%, 9/30/2014	23,027	20,985
Symbion, Inc.:		
Term Loan A, 8.21%, 8/23/2013	34,912	33,953
Term Loan B, 8.21%, 8/23/2014	34,912	33,821
Telesat Canada, Inc.:		
Term Loan, LIBOR plus 3.0%, 7.224%, 10/31/2014	61,102	61,289
8.09%, 9/1/2014	13,780	13,477
9.0%, 10/31/2008	225,000	216,563
Tribune Co., Term Loan B, 8.243%, 5/24/2014	49,538	42,676
Total Senior Loans (Cost $1,642,039)		**1,584,408**
Government & Agency Obligations 5.3%		
US Government Sponsored Agencies 1.4%		
Federal Home Loan Bank, 4.375%, 10/22/2010	1,000,000	1,020,026
Federal Home Loan Mortgage Corp., 5.5%, 8/20/2012	2,000,000	2,131,926
Federal National Mortgage Association, 4.875%, 5/15/2012	4,000,000	4,156,100
		7,308,052
US Treasury Obligations 3.9%		
US Treasury Bills:		
3.7%***,1/17/2008 (e)	1,539,000	1,537,308
2.42%***, 1/17/2008 (e)	214,000	213,770
2.201%***, 1/17/2008 (e)	5,000	4,995
2.1%***,1/17/2008 (e)	69,000	68,936
2.358%***, 1/17/2008 (e)	1,000	999
2.47%***, 1/17/2008 (e)	756,000	755,170
2.54%***, 1/17/2008 (e)	94,000	93,894
2.7%***, 1/17/2008 (e)	6,000	5,993
2.2%***, 1/17/2008 (e)	4,591,000	4,586,511
US Treasury Bonds:		
5.0%, 5/15/2037 (c)	3,500,000	3,814,727
4.5%, 5/15/2017	1,000,000	1,036,484
US Treasury Notes:		
4.0%, 9/30/2009 (c)	4,000,000	4,063,752
4.625%, 7/31/2012	1,000,000	1,050,000
4.25%, 9/30/2012 (c)	3,500,000	3,622,773
		20,855,312
Total Government & Agency Obligations (Cost $27,876,075)		**28,163,364**

	Units	Value ($)
Other Investments 0.1%		
Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029	170,000	143,534
IdleAire Technologies Corp. (Bond Unit), 144A, Step-up Coupon, 0% to 6/15/2008, 13.0% to 12/15/2012	270,000	148,500
Total Other Investments (Cost $339,117)		**292,034**

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

	Shares	Value ($)
Closed End Investment Company 0.0%		
Apollo Investment Corp. (Cost $166,126)	8,117	**138,395**
Securities Lending Collateral 2.4%		
Daily Assets Fund Institutional, 5.03% (f) (g) (Cost $12,596,375)	12,596,375	**12,596,375**

	Shares	Value ($)
Cash Equivalents 4.9%		
Cash Management QP Trust, 4.67% (f) (Cost $26,470,821)	26,470,821	**26,470,821**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $493,877,931)†	101.6	**543,639,927**
Other Assets and Liabilities, Net	(1.6)	**(8,419,504)**
Net Assets	100.0	**535,220,423**

* *Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or the interest or has filed for bankruptcy. The following table represents bonds that are in default:*

Securities	Coupon	Maturity Date	Principal Amount		Acquisition Cost ($)	Value ($)
Congoleum Corp.	8.625%	8/1/2008	190,000	USD	190,156	142,500
Radnor Holdings Corp.	11.0%	3/15/2010	40,000	USD	27,743	300
					217,899	**142,800**

** *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, 2007.*

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

† *The cost for federal income tax purposes was $496,337,428. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $47,302,499. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $63,067,617 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $15,765,118.*

(a) *Principal amount is stated in US dollars unless otherwise noted.*

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

(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, 2007 amounted to $12,308,657 which is 2.3% of net assets.*

(d) *Security has a deferred interest payment of $15,343 from April 1, 2006.*

(e) *At December 31, 2007, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

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

(g) *Represents collateral held in connection with securities lending. Earned income by the Portfolio is net of borrower rebates.*

(h) *Security issued in lieu of interest payment due 12/15/07, which has been deferred until 3/15/08. This security is deemed to be non-income producing.*

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

ADR: American Depositary Receipt

CVA: Certificaten van Aandelen

GDR: Global Depositary Receipt

LIBOR: Represents the London InterBank Offered Rate.

PIK: Denotes that all or a portion of the income is paid in-kind.

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgage or mortgage-backed securities.

REIT: Real Estate Investment Trust

At December 31, 2007, the Portfolio had unfunded loan commitments of $24,457 which could be extended at the option of the borrower, pursuant to the following loan agreement:

Borrower	Unfunded Loan Commitment ($)	Value ($)	Unrealized Depreciation ($)
Bausch & Lomb, Inc., Term Delay Draw, 4/11/2015	9,975	9,975	—
Longview Power LLC, Term Delay Draw, 4/1/2014	9,286	8,931	(355)
Telesat Canada, Inc., Term Delay Draw 9/1/2014	5,196	5,006	(190)
Total	**24,457**	**23,912**	**(545)**

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

At December 31, 2007, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Canadian Government Bond	3/19/2008	375	43,691,904	43,664,826	(27,078)
10 Year US Treasury Note	3/19/2008	115	13,004,209	13,039,922	35,713
DAX Index	3/20/2008	3	872,911	893,075	20,164
DJ Euro Stoxx 50 Index	3/20/2008	8	510,812	518,735	7,923
EOE Dutch Stock Index	1/18/2008	66	9,783,926	9,976,651	192,725
Hang Seng Stock Index	1/30/2008	56	9,903,505	10,022,315	118,810
Nikkei 225 CME Index	3/13/2008	1	75,954	76,025	71
Russell 2000 Index	3/19/2008	1	385,454	386,100	646
S&P 500 Index	3/19/2008	21	7,747,040	7,755,300	8,260
S&P/MIB Index	3/20/2008	9	2,548,540	2,560,766	12,226
SPI 200 Equity Index	3/20/2008	1	137,190	139,347	2,157
30 Year US Treasury Bond	3/19/2008	60	6,995,987	6,982,500	(13,487)
United Kingdom Treasury Bond	3/27/2008	170	36,887,260	37,302,060	414,800
Total net unrealized appreciation					**772,930**

At December 31, 2007, the open futures contracts sold were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Federal Republic of Germany Bond	3/6/2008	186	30,854,555	30,759,287	95,268
2 Year US Treasury Note	3/31/2008	82	17,195,407	17,240,500	(45,093)
10 Year Australian Bond	3/17/2008	309	26,565,946	26,505,161	60,785
FTSE 100 Index	3/20/2008	46	5,784,199	5,910,690	(126,491)
2 Year Federal Republic of Germany Bond	3/6/2008	559	84,528,484	84,470,606	57,878
IBEX 35 Index	1/18/2008	3	669,629	662,769	6,860
10 Year Japan Government Bond	3/11/2008	2	2,448,144	2,449,268	(1,124)
Russell E Mini 2000 Index	3/20/2008	9	682,267	694,980	(12,713)
S&P/TSE 60 Index	3/19/2008	20	3,191,904	3,297,026	(105,122)
SPI 200 Equity Index	3/20/2008	22	3,011,919	3,065,625	(53,706)
TOPIX Index	3/14/2008	21	2,759,166	2,763,282	(4,116)
Total net unrealized depreciation					**(127,574)**

At December 31, 2007, open credit default swap contracts sold were as follows:

Effective/Expiration Date	Notional Amount ($)	Cash Flows Received by the Portfolio	Underlying Debt Obligation	Unrealized (Depreciation) ($)
12/15/2007 12/20/2008	70,000[1]	Fixed — 2.9%	Tenet Healthcare Corp. 7.375%, 2/1/2013	(357)
10/3/2007 12/20/2008	75,000[2]	Fixed — 3.2%	General Motors Corp. 7.125%, 7/15/2013	(376)
10/4/2007 12/20/2008	80,000[3]	Fixed — 2.6%	General Motors Corp. 7.125%, 7/15/2013	(985)
10/20/2007 12/20/2008	150,000[1]	Fixed — 3.06%	General Motors Corp. 7.125%, 7/15/2013	(1,189)
10/9/2007 12/20/2008	75,000[4]	Fixed — 3.1%	Ford Motor Co. 6.5%, 8/1/2018	(345)
10/5/2007 12/20/2008	45,000[2]	Fixed — 3.15%	Ford Motor Co. 6.5%, 8/1/2018	(185)
10/20/2007 12/20/2008	150,000[1]	Fixed — 3.05%	Ford Motor Co. 6.5%, 8/1/2018	(943)
12/13/2007 12/20/2009	25,000[5]	Fixed — 5.05%	Ford Motor Co. 6.5%, 8/1/2018	(408)

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

Effective/Expiration Date	Notional Amount ($)	Cash Flows Received by the Portfolio	Underlying Debt Obligation	Unrealized (Depreciation) ($)
10/23/2007 12/20/2008	85,000[6]	Fixed — 4.65%	Ford Motor Co. 6.5%, 8/1/2018	(1,030)
Total unrealized depreciation				**(5,818)**

Counterparties:

1 *Lehman Brothers, Inc.*

2 *JP Morgan Chase Securities, Inc.*

3 *Citigroup Global Markets Inc.*

4 *Goldman Sachs & Co.*

5 *Merrill Lynch, Pierce, Fenner & Smith, Inc.*

6 *Morgan Stanley Co., Inc.*

At December 31, 2007 the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation (US$)
EUR	253,000	USD	376,140	1/3/2008	6,220
USD	295,030	EUR	205,400	1/3/2008	5,292
SEK	4,971,000	USD	777,119	3/19/2008	7,607
USD	13,477,968	AUD	15,726,000	3/19/2008	261,620
USD	473,788	CAD	479,000	3/19/2008	11,872
USD	7,439,052	EUR	5,164,000	3/19/2008	116,507
USD	608,544	NOK	3,319,000	3/19/2008	1,341
USD	7,732,510	NOK	43,217,000	3/19/2008	208,866
USD	2,359,500	NZD	3,146,000	3/19/2008	39,286
USD	3,121,032	SGD	4,474,000	3/19/2008	2,887
USD	10,183,884	SGD	14,787,000	3/19/2008	140,971
Total unrealized appreciation					**802,469**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized (Depreciation) (US$)
JPY	2,100,000	USD	18,579	1/4/2008	(227)
EUR	91,475	USD	133,500	2/4/2008	(320)
CAD	3,682,000	USD	3,664,046	3/19/2008	(69,148)
CHF	4,010,000	USD	3,556,541	3/19/2008	(1,533)
CHF	18,127,000	USD	15,786,357	3/19/2008	(297,733)
JPY	278,715,000	USD	2,515,819	3/19/2008	(645)
JPY	1,901,252,000	USD	16,980,922	3/19/2008	(185,116)
SEK	13,434,000	USD	2,044,407	3/19/2008	(35,182)
USD	935,530	AUD	1,060,000	3/19/2008	(9,422)
USD	2,716,181	EUR	1,849,000	3/19/2008	(10,870)
USD	2,436,566	GBP	1,194,000	3/19/2008	(64,895)
USD	7,192,000	GBP	3,596,000	3/19/2008	(49,179)
Total unrealized depreciation					**(724,270)**

Currency Abbreviations

AUD	Australian Dollar	NOK	Norwegian Krone
CAD	Canadian Dollar	NZD	New Zealand Dollar
CHF	Swiss Franc	SEK	Swedish Krona
EUR	Euro	SGD	Singapore Dollar
GBP	British Pound	USD	United States Dollar
JPY	Japanese Yen		

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets		
Investments:		
Investments in securities, at value (cost $454,810,735) — including $12,308,657 of securities loaned	$	504,572,731
Investment in Daily Assets Fund Institutional (cost $12,596,375)*		12,596,375
Investment in Cash Management QP Trust (cost $26,470,821)		26,470,821
Total investments, at value (cost $493,877,931)		543,639,927
Cash		799,601
Foreign currency, at value (cost $7,567,944)		7,558,123
Receivable for investments sold		1,986,490
Dividends receivable		307,048
Interest receivable		1,496,730
Unrealized appreciation on forward foreign currency exchange contracts		802,469
Foreign taxes recoverable		11,087
Receivable for Portfolio shares sold		17,024
Receivable for variation margin on open futures contracts		477,427
Net receivable on closed forward foreign currency exchange contracts		12,449
Due from Advisor		2,661
Other assets		12,526
Total assets		557,123,562
Liabilities		
Payable upon return of securities loaned		12,596,375
Payable for investments purchased		7,397,705
Payable for Portfolio shares redeemed		664,574
Unrealized depreciation on forward foreign currency exchange contracts		724,270
Unrealized depreciation on unfunded loan commitments		545
Unrealized depreciation on credit default swap contracts		5,818
Accrued management fee		192,823
Other accrued expenses and payables		321,029
Total liabilities		21,903,139
Net assets, at value	**$**	**535,220,423**
Net Assets Consist of		
Undistributed net investment income		17,895,386
Net unrealized appreciation (depreciation) on:		
Investments		49,761,996
Futures		645,356
Credit default swaps		(5,818)
Unfunded loan commitments		(545)
Foreign currency		106,861
Accumulated net realized gain (loss)		(5,420,370)
Paid-in capital		472,237,557
Net assets, at value	**$**	**535,220,423**
Class A		
Net Asset Value, offering and redemption price per share ($527,938,536 ÷ 21,278,440 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**24.81**
Class B		
Net Asset Value, offering and redemption price per share ($7,281,887 ÷ 293,818 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**24.78**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $13,679)	$	5,988,371
Interest (net of foreign taxes withheld of $4,067)		13,748,757
Interest — Cash Management QP Trust		696,014
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		108,160
Total Income		20,541,302
Expenses:		
Management fee		2,666,534
Custodian fee		70,316
Services to shareholders		1,280
Distribution service fee (Class B)		38,042
Record keeping fees (Class B)		18,909
Professional fees		80,187
Trustees' fees and expenses		25,411
Reports to shareholders		174,441
Other		4,499
Total expenses before expense reductions		3,079,619
Expense reductions		(41,593)
Total expenses after expense reductions		3,038,026
Net investment income (loss)		**17,503,276**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		50,500,543
Futures		1,121,607
Written options		(8,062)
Credit default swaps		(545,020)
Foreign currency		347,020
Payments by affiliates (see Note I)		11,348
		51,427,436
Change in net unrealized appreciation (depreciation) on:		
Investments		(40,481,165)
Futures		625,903
Credit default swaps		(28,893)
Unfunded loan commitments		(545)
Foreign currency		(29,599)
		(39,914,299)
Net gain (loss)		**11,513,137**
Net increase (decrease) in net assets resulting from operations	**$**	**29,016,413**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 17,503,276	$ 19,398,498
Net realized gain (loss)	51,427,436	27,673,450
Change in net unrealized appreciation (depreciation)	(39,914,299)	16,069,946
Net increase (decrease) in net assets resulting from operations	29,016,413	63,141,894
Distributions to shareholders from:		
Net investment income:		
Class A	(18,973,533)	(15,934,054)
Class B	(849,365)	(705,320)
Total distributions	(19,822,898)	(16,639,374)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	13,218,397	7,544,406
Reinvestment of distributions	18,973,533	15,934,054
Cost of shares redeemed	(113,345,811)	(120,785,402)
Net increase (decrease) in net assets from Class A share transactions	(81,153,881)	(97,306,942)
Class B		
Proceeds from shares sold	575,499	1,059,376
Reinvestment of distributions	849,365	705,320
Cost of shares redeemed	(25,041,162)	(7,245,826)
Net increase (decrease) in net assets from Class B share transactions	(23,616,298)	(5,481,130)
Increase (decrease) in net assets	(95,576,664)	(56,285,552)
Net assets at beginning of period	630,797,087	687,082,639
Net assets at end of period (including undistributed net investment income of $17,895,386 and $19,394,367, respectively)	**$ 535,220,423**	**$ 630,797,087**

Other Information

Class A		
Shares outstanding at beginning of period	24,544,133	28,729,438
Shares sold	536,248	324,532
Shares issued to shareholders in reinvestment of distributions	792,545	696,418
Shares redeemed	(4,594,486)	(5,206,255)
Net increase (decrease) in Class A shares	(3,265,693)	(4,185,305)
Shares outstanding at end of period	**21,278,440**	**24,544,133**
Class B		
Shares outstanding at beginning of period	1,244,941	1,479,683
Shares sold	23,371	45,760
Shares issued to shareholders in reinvestment of distributions	35,405	30,773
Shares redeemed	(1,009,899)	(311,275)
Net increase (decrease) in Class B shares	(951,123)	(234,742)
Shares outstanding at end of period	**293,818**	**1,244,941**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$24.46**	**$22.75**	**$22.37**	**$21.32**	**$18.66**
Income (loss) from investment operations:					
Net investment income[a]	.74	.69[d]	.59	.47	.37
Net realized and unrealized gain (loss)	.42	1.60	.34	.93	2.90
Total from investment operations	1.16	2.29	.93	1.40	3.27
Less distributions from:					
Net investment income	(.81)	(.58)	(.55)	(.35)	(.61)
Net asset value, end of period	**$24.81**	**$24.46**	**$22.75**	**$22.37**	**$21.32**
Total Return (%)	4.84[b]	10.24[b,d]	4.30[b]	6.64	18.10
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	528	600	653	622	667
Ratio of expenses before expense reductions (%)	.52	.55	.55	.59	.59
Ratio of expenses after expense reductions (%)	.51	.51	.53	.59	.59
Ratio of net investment income (%)	3.00	2.99[d]	2.66	2.18	1.88
Portfolio turnover rate (%)	190[c]	108	121[c]	131[c]	102[c]

a *Based on average shares outstanding during the period.*

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

c *The portfolio turnover rate including mortgage dollar roll transactions was 199%, 122%, 140% and 108% for the years ended December 31, 2007, December 31, 2005, December 31, 2004 and December 31, 2003, respectively.*

d *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.024 per share and an increase in the ratio of net investment income of 0.10%. Excluding this non-recurring income, total return would have been 0.10% lower.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$24.43**	**$22.72**	**$22.33**	**$21.28**	**$18.64**
Income (loss) from investment operations:					
Net investment income[a]	.65	.60[d]	.51	.39	.28
Net realized and unrealized gain (loss)	.41	1.60	.35	.92	2.92
Total from investment operations	1.06	2.20	.86	1.31	3.20
Less distributions from:					
Net investment income	(.71)	(.49)	(.47)	(.26)	(.56)
Net asset value, end of period	**$24.78**	**$24.43**	**$22.72**	**$22.33**	**$21.28**
Total Return (%)	4.43[b]	9.82[b,d]	3.90[b]	6.26	17.66
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	7	30	34	33	21
Ratio of expenses before expense reductions (%)	.89	.93	.95	.97	.99
Ratio of expenses after expense reductions (%)	.88	.89	.91	.97	.99
Ratio of net investment income (%)	2.63	2.61[d]	2.28	1.80	1.48
Portfolio turnover rate (%)	190[c]	108	121[c]	131[c]	102[c]

a *Based on average shares outstanding during the period.*

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

c *The portfolio turnover rate including mortgage dollar roll transactions was 199%, 122%, 140% and 108% for the years ended December 31, 2007, December 31, 2005, December 31, 2004 and December 31, 2003, respectively.*

d *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.024 per share and an increase in the ratio of net investment income of 0.10%. Excluding this non-recurring income, total return would have been 0.10% lower.*

Performance Summary

December 31, 2007

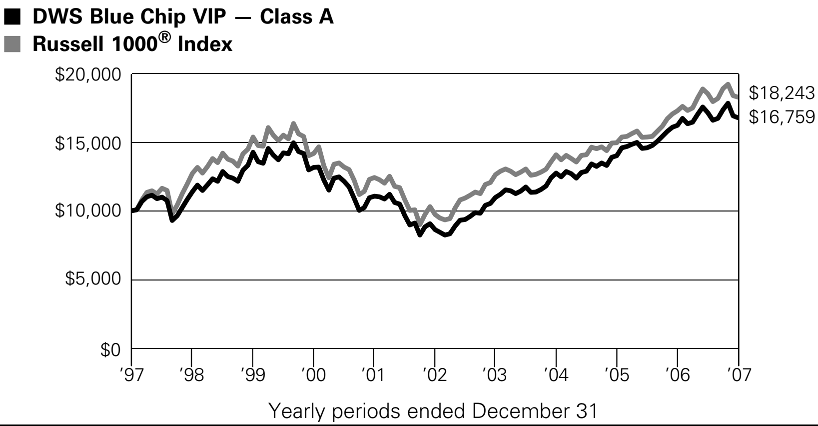
DWS Blue Chip VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .70% and 1.08% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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. 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. Derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on its derivative positions. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS Blue Chip VIP



The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which measures the performance of the 3,000 largest US companies based on total market capitalization. The Russell 1000 Index represents approximately 92% of the total market capitalization of the Russell 3000 Index.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Blue Chip VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,350	$13,174	$19,452	$16,759
	Average annual total return	3.50%	9.62%	14.23%	5.30%
Russell 1000 Index	Growth of $10,000	$10,577	$12,978	$18,780	$18,243
	Average annual total return	5.77%	9.08%	13.43%	6.20%

DWS Blue Chip VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,315	$13,032	$19,089	$17,362
	Average annual total return	3.15%	9.23%	13.80%	10.55%
Russell 1000 Index	Growth of $10,000	$10,577	$12,978	$18,780	$16,877
	Average annual total return	5.77%	9.08%	13.43%	9.98%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Blue Chip VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$ 978.60	$ 976.60
Expenses Paid per $1,000*	$ 3.59	$ 5.73

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,021.58	$1,019.41
Expenses Paid per $1,000*	$ 3.67	$ 5.85

* *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**
DWS Variable Series II — DWS Blue Chip VIP	.72%	1.15%

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

These tables do not 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.

DWS Blue Chip VIP

Except for a period of weakness in late February and early March, equity markets were quite strong during the first half of 2007. By the end of May, most indices were at or near their all-time highs, and positive trends continued through mid-July before drifting lower in the late summer. A rally in September was sparked in part by the first of the US Federal Reserve Board's (the Fed's) three interest rate reductions. Volatility increased in the fourth quarter, as markets responded to further bad news about the potential impact of the subprime mortgage crisis.

For the full year, the Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, returned 5.14%. Growth stocks, as measured by the Russell 1000® Growth Index, performed significantly better than value stocks, as measured by the Russell 1000® Value Index. With a return of 3.50% (Class A shares, unadjusted for contract charges), the Portfolio underperformed its benchmark, the Russell 1000® Index, which posted a return of 5.77%.

Positioning in the materials and banks sectors made a positive contribution to performance relative to the benchmark. Major detractors were stock selection in transportation, technology hardware & equipment, and consumer durables & apparel.

In materials, which posted the highest return of the 10 sectors in the Russell 1000 Index, holdings that were especially strong were Lyondell Chemical Co.*, which has significant involvement in energy; Southern Copper Co.*; and Celanese Corp. In the financials sector, the Portfolio's performance benefited from not owning many of the worst-performing stocks, particularly those with significant involvement in mortgage lending. Also positive was a position in pharmaceutical Schering-Plough Corp.

In the transportation sector, performance was hurt by positions in several airlines including AMR Corp. and Continental Airlines, Inc. In technology hardware & equipment, the major detractor was printer manufacturer Lexmark International, Inc. Concern about consumer spending led to poor performance of many stocks in the consumer durables & apparel sector; positions that detracted from performance include home builders NVR, Inc. and Centex Corp.* and apparel/accessories marketers Polo Ralph Lauren Corp. and Coach, Inc.*

Robert Wang, Jin Chen, *CFA* and Julie Abbett
Portfolio Managers, Deutsche Investment Management Americas Inc.

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. 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. Derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on its derivative positions. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell 3000 Index measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

The Russell 1000 Growth Index is an unmanaged, capitalization-weighted index consisting of those stocks in the Russell 1000 Index that have greater-than-average growth orientation.

The Russell 1000 Value Index is an unmanaged index that consists of those stocks in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth values.

The Russell 1000 Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

Index returns 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.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

* *As of December 31, 2007, the positions were not held.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Blue Chip VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	97%	99%
Cash Equivalents	3%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Information Technology	15%	13%
Financials	15%	20%
Health Care	14%	13%
Energy	14%	10%
Industrials	13%	11%
Consumer Discretionary	11%	14%
Consumer Staples	9%	7%
Telecommunication Services	4%	5%
Materials	3%	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 37. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

DWS Blue Chip VIP

	Shares	Value ($)
Common Stocks 96.9%		
Consumer Discretionary 10.5%		
Auto Components 0.9%		
American Axle & Manufacturing Holdings, Inc.	2,000	37,240
Autoliv, Inc.	11,100	585,081
Johnson Controls, Inc.	26,700	962,268
Lear Corp.*	21,000	580,860
		2,165,449
Hotels Restaurants & Leisure 2.1%		
Darden Restaurants, Inc.	20,100	556,971
McDonald's Corp.	51,600	3,039,756
Yum! Brands, Inc.	43,200	1,653,264
		5,249,991
Household Durables 0.5%		
NVR, Inc.*	2,400	**1,257,600**
Leisure Equipment & Products 0.2%		
Hasbro, Inc.	17,600	450,208
Polaris Industries, Inc. (a)	3,400	162,418
		612,626
Media 2.0%		
Comcast Corp. "A"*	46,200	843,612
McGraw-Hill Companies, Inc.	17,500	766,675
The DIRECTV Group, Inc.*	149,500	3,456,440
		5,066,727
Multiline Retail 1.3%		
Big Lots, Inc.*	69,900	1,117,701
Dollar Tree Stores, Inc.*	33,800	876,096
Family Dollar Stores, Inc.	67,700	1,301,871
		3,295,668
Specialty Retail 2.8%		
AutoZone, Inc.*	19,500	2,338,245
Best Buy Co., Inc.	3,100	163,215
Dick's Sporting Goods, Inc.*	49,400	1,371,344
RadioShack Corp.	93,300	1,573,038
The Men's Wearhouse, Inc.	6,700	180,766
The Sherwin-Williams Co.	13,600	789,344
TJX Companies, Inc.	21,300	611,949
		7,027,901
Textiles, Apparel & Luxury Goods 0.7%		
Polo Ralph Lauren Corp.	30,600	**1,890,774**
Consumer Staples 8.9%		
Beverages 2.5%		
Anheuser-Busch Companies, Inc.	14,900	779,866
Coca-Cola Enterprises, Inc.	54,600	1,421,238
Diageo PLC (ADR)	800	68,664
Pepsi Bottling Group, Inc.	20,400	804,984
PepsiCo, Inc.	42,800	3,248,520
		6,323,272
Food & Staples Retailing 2.0%		
Costco Wholesale Corp.	23,500	1,639,360
Kroger Co.	102,000	2,724,420
SUPERVALU, Inc.	2,300	86,296
Sysco Corp.	20,600	642,926
		5,093,002
Food Products 0.3%		
Fresh Del Monte Produce, Inc.*	7,200	241,776
Kellogg Co.	2,700	141,561
The J.M. Smucker Co.	1,400	72,016
Wm. Wrigley Jr. Co.	4,000	234,200
		689,553
Household Products 2.1%		
Colgate-Palmolive Co.	43,500	3,391,260
Kimberly-Clark Corp.	17,900	1,241,186
Procter & Gamble Co.	8,500	624,070
		5,256,516
Personal Products 0.1%		
Herbalife Ltd.	8,000	**322,240**
Tobacco 1.9%		
Altria Group, Inc.	40,700	3,076,106
Loews Corp. — Carolina Group	21,900	1,868,070
		4,944,176
Energy 13.1%		
Energy Equipment & Services 4.7%		
ENSCO International, Inc.	29,700	1,770,714
Global Industries Ltd.*	47,100	1,008,882
Helmerich & Payne, Inc.	5,100	204,357
National-Oilwell Varco, Inc.*	1,600	117,536
Noble Corp.	53,000	2,995,030
Schlumberger Ltd.	5,600	550,872
Tidewater, Inc.	7,000	384,020
Transocean, Inc.*	34,606	4,953,849
		11,985,260
Oil, Gas & Consumable Fuels 8.4%		
Chevron Corp.	60,900	5,683,797
ExxonMobil Corp.	27,840	2,608,330
Frontier Oil Corp.	35,800	1,452,764
Hess Corp.	32,700	3,298,122
Petroleo Brasileiro SA (ADR) (Preferred)	26,300	2,530,586
Royal Dutch Shell PLC "A" (ADR)	31,300	2,635,460
Sunoco, Inc.	3,900	282,516
Tesoro Corp.	47,800	2,280,060
Western Refining, Inc.	7,200	174,312
Williams Companies, Inc.	8,300	296,974
		21,242,921
Financials 14.7%		
Capital Markets 4.2%		
Lazard Ltd. "A"	2,000	81,360
Morgan Stanley	91,600	4,864,876
The Goldman Sachs Group, Inc.	26,300	5,655,815
		10,602,051
Commercial Banks 0.6%		
PNC Financial Services Group, Inc.	17,900	1,175,135
US Bancorp.	10,700	339,618
		1,514,753
Diversified Financial Services 3.7%		
Bank of America Corp.	87,500	3,610,250
Citigroup, Inc.	89,200	2,626,048
JPMorgan Chase & Co.	73,600	3,212,640
		9,448,938

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

	Shares	Value ($)
Insurance 5.7%		
ACE Ltd.	31,900	1,970,782
Berkshire Hathaway, Inc. "B"*	400	1,894,400
China Life Insurance Co., Ltd. "H" (ADR)	9,500	726,750
Endurance Specialty Holdings Ltd.	3,100	129,363
Hartford Financial Services Group, Inc.	21,600	1,883,304
MetLife, Inc.	60,200	3,709,524
PartnerRe Ltd.	3,500	288,855
The Travelers Companies, Inc.	13,000	699,400
W.R. Berkley Corp.	11,300	336,853
XL Capital Ltd. "A"	55,200	2,777,112
		14,416,343
Real Estate Investment Trusts 0.3%		
ProLogis (REIT)	9,200	583,096
Vornado Realty Trust (REIT)	1,700	149,515
		732,611
Real Estate Management & Development 0.2%		
Jones Lang LaSalle, Inc.	5,700	**405,612**
Health Care 13.8%		
Biotechnology 2.0%		
Amgen, Inc.*	23,000	1,068,120
Gilead Sciences, Inc.*	84,900	3,906,249
Onyx Pharmaceuticals, Inc.*	3,800	211,356
		5,185,725
Health Care Equipment & Supplies 1.2%		
Baxter International, Inc.	9,100	528,255
Becton, Dickinson & Co.	17,100	1,429,218
Kinetic Concepts, Inc.*	19,400	1,039,064
		2,996,537
Health Care Providers & Services 5.2%		
Aetna, Inc.	67,100	3,873,683
Coventry Health Care, Inc.*	18,800	1,113,900
Health Net, Inc.*	31,200	1,506,960
Humana, Inc.*	45,500	3,426,605
McKesson Corp.	8,400	550,284
Medco Health Solutions, Inc.*	27,200	2,758,080
		13,229,512
Life Sciences Tools & Services 0.6%		
Invitrogen Corp.*	15,300	**1,429,173**
Pharmaceuticals 4.8%		
Bristol-Myers Squibb Co.	144,200	3,824,184
Eli Lilly & Co.	25,800	1,377,462
Endo Pharmaceuticals Holdings, Inc.*	11,600	309,372
Merck & Co., Inc.	33,000	1,917,630
Pfizer, Inc.	31,200	709,176
Schering-Plough Corp.	97,500	2,597,400
Sepracor, Inc.*	56,200	1,475,250
		12,210,474
Industrials 12.5%		
Aerospace & Defense 6.2%		
Boeing Co.	52,500	4,591,650
General Dynamics Corp.	6,300	560,637
Goodrich Corp.	5,200	367,172
Honeywell International, Inc.	72,200	4,445,354
Lockheed Martin Corp.	41,900	4,410,394
Northrop Grumman Corp.	15,600	1,226,784
		15,601,991
Airlines 1.4%		
AMR Corp.*	118,600	1,663,958
Continental Airlines, Inc. "B"*	62,200	1,383,950
Delta Air Lines, Inc.*	16,100	239,729
US Airways Group, Inc.*	26,000	382,460
		3,670,097
Commercial Services & Supplies 0.4%		
Allied Waste Industries, Inc.*	48,500	534,470
Dun & Bradstreet Corp.	3,000	265,890
The Brink's Co.	1,500	89,610
		889,970
Construction & Engineering 1.3%		
Fluor Corp.	19,100	2,783,252
Shaw Group, Inc.*	6,900	417,036
		3,200,288
Electrical Equipment 0.3%		
Belden, Inc.	7,000	311,500
Emerson Electric Co.	9,700	549,602
		861,102
Industrial Conglomerates 0.8%		
General Electric Co.	51,800	1,920,226
Teleflex, Inc.	2,200	138,622
		2,058,848
Machinery 1.6%		
AGCO Corp.*	8,600	584,628
Caterpillar, Inc.	23,400	1,697,904
PACCAR, Inc.	24,950	1,359,276
Parker Hannifin Corp.	6,100	459,391
		4,101,199
Road & Rail 0.5%		
Ryder System, Inc.	24,700	**1,161,147**
Information Technology 15.0%		
Communications Equipment 0.6%		
Cisco Systems, Inc.*	7,100	192,197
Nokia Oyj (ADR)	33,400	1,282,226
		1,474,423
Computers & Peripherals 4.8%		
Apple, Inc.*	20,400	4,040,832
Hewlett-Packard Co.	26,700	1,347,816
International Business Machines Corp.	54,400	5,880,640
Lexmark International, Inc. "A"*	23,600	822,696
QLogic Corp.*	6,900	97,980
		12,189,964
Electronic Equipment & Instruments 0.8%		
Arrow Electronics, Inc.*	8,600	337,808
AU Optronics Corp. (ADR) (a)	50,900	977,280
Avnet, Inc.*	12,100	423,137
LG.Philips LCD Co., Ltd. (ADR)* (a)	10,200	264,996
		2,003,221
Internet Software & Services 1.2%		
eBay, Inc.*	21,200	703,628
Google, Inc. "A"*	3,400	2,351,032
		3,054,660
IT Services 2.2%		
Accenture Ltd. "A"	102,400	3,689,472
Computer Sciences Corp.*	29,700	1,469,259
MasterCard, Inc. "A"	2,100	451,920
		5,610,651

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

	Shares	Value ($)
Office Electronics 0.1%		
Canon, Inc. (ADR)	3,100	**142,073**
Semiconductors & Semiconductor Equipment 1.9%		
Amkor Technology, Inc.*	20,200	172,306
Applied Materials, Inc.	146,900	2,608,944
MEMC Electronic Materials, Inc.*	22,300	1,973,327
Teradyne, Inc.*	3,400	35,156
		4,789,733
Software 3.4%		
Compuware Corp.*	7,400	65,712
Microsoft Corp.	220,600	7,853,360
Symantec Corp.*	43,500	702,090
		8,621,162
Materials 2.7%		
Chemicals 2.4%		
Celanese Corp. "A"	30,200	1,278,064
CF Industries Holdings, Inc.	16,700	1,838,002
Eastman Chemical Co.	7,900	482,611
Terra Industries, Inc.*	50,300	2,402,328
		6,001,005
Containers & Packaging 0.2%		
Packaging Corp. of America	14,800	**417,360**
Metals & Mining 0.1%		
Allegheny Technologies, Inc.	3,600	**311,040**
Telecommunication Services 4.1%		
Diversified Telecommunication Services 4.0%		
AT&T, Inc.	38,500	1,600,060
CenturyTel, Inc.	17,500	725,550
Embarq Corp.	39,300	1,946,529
Telus Corp.	1,400	70,131
Verizon Communications, Inc.	117,300	5,124,837
Windstream Corp.	53,900	701,778
		10,168,885
Wireless Telecommunication Services 0.1%		
Telephone & Data Systems, Inc.	3,700	**231,620**
Utilities 1.6%		
Electric Utilities 0.6%		
American Electric Power Co., Inc.	9,400	437,664
Edison International	11,900	635,103
FirstEnergy Corp.	5,800	419,571
		1,492,338
Gas Utilities 0.0%		
Energen Corp.	1,200	**77,076**
Independent Power Producers & Energy Traders 0.2%		
Constellation Energy Group	5,000	**512,650**
Multi-Utilities 0.8%		
Sempra Energy	31,500	**1,949,221**
Total Common Stocks (Cost $230,671,239)		**245,187,129**

	Principal Amount ($)	Value ($)
Government & Agency Obligations 0.3%		
US Treasury Bill, 3.7%**, 1/17/2008 (b) (Cost $768,734)	770,000	**769,154**

	Shares	Value ($)
Securities Lending Collateral 0.3%		
Daily Assets Fund Institutional, 5.03% (c) (d) (Cost $788,711)	788,711	**788,711**
Cash Equivalents 2.9%		
Cash Management QP Trust, 4.67% (c) (Cost $7,202,343)	7,202,343	**7,202,343**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $239,431,027)†	100.4	**253,947,337**
Other Assets and Liabilities, Net	(0.4)	**(890,573)**
Net Assets	100.0	**253,056,764**

* *Non-income producing security.*

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

† *The cost for federal income tax purposes was $241,305,564. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $12,641,773. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $27,192,713 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $14,550,940.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $766,594 which is 0.3% of net assets.*

(b) *At December 31, 2007, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

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

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

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

At December 31, 2007, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Depreciation ($)
S&P 500 Index	3/19/2008	21	7,771,123	7,755,300	**(15,823)**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets		
Investments:		
Investments in securities, at value (cost $231,439,973 — including $766,594 of securities loaned)	$	245,956,283
Investment in Daily Assets Fund Institutional (cost $788,711)*		788,711
Investment in Cash Management QP Trust (cost $7,202,343)		7,202,343
Total investments, at value (cost $239,431,027)		253,947,337
Dividends receivable		232,399
Interest receivable		28,024
Receivable for Portfolio shares sold		31,582
Other assets		6,403
Total assets		254,245,745

Liabilities		
Payable for Portfolio shares redeemed		98,862
Payable upon return of securities loaned		788,711
Payable for daily variation margin on open futures contracts		43,575
Accrued management fee		141,941
Other accrued expenses and payables		115,892
Total liabilities		1,188,981
Net assets, at value	**$**	**253,056,764**

Net Assets Consist of		
Undistributed net investment income		3,469,179
Net unrealized appreciation (depreciation) on:		
Investments		14,516,310
Futures		(15,823)
Foreign currency		12
Accumulated net realized gain (loss)		32,009,773
Paid-in capital		203,077,313
Net assets, at value	**$**	**253,056,764**
Class A **Net Asset Value,** offering and redemption price per share ($242,018,245 ÷ 16,515,920 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**14.65**
Class B **Net Asset Value,** offering and redemption price per share ($11,038,519 ÷ 755,480 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**14.61**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $2,609)	$	5,315,097
Interest		35,512
Interest — Cash Management QP Trust		377,953
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		37,301
Total Income		5,765,863
Expenses:		
Management fee		2,018,922
Custodian fee		30,100
Distribution service fee (Class B)		58,995
Record keeping fees (Class B)		31,007
Services to shareholders		536
Professional fees		67,754
Trustees' fees and expenses		35,505
Reports to shareholders		46,441
Other		18,152
Total expenses before expense reductions		2,307,412
Expense reductions		(5,737)
Total expenses after expense reductions		2,301,675
Net investment income (loss)		**3,464,188**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		32,640,003
Futures		415,810
		33,055,813
Change in net unrealized appreciation (depreciation) on:		
Investments		(21,613,432)
Futures		(32,904)
Foreign currency		12
		(21,646,324)
Net gain (loss)		**11,409,489**
Net increase (decrease) in net assets resulting from operations	**$**	**14,873,677**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 3,464,188	$ 3,670,062
Net realized gain (loss)	33,055,813	40,582,255
Change in net unrealized appreciation (depreciation)	(21,646,324)	5,884,664
Net increase (decrease) in net assets resulting from operations	14,873,677	50,136,981
Distributions to shareholders from:		
Net investment income:		
Class A	(3,290,254)	(2,723,182)
Class B	(315,334)	(213,761)
Net realized gain:		
Class A	(34,899,465)	(15,496,612)
Class B	(5,204,548)	(2,298,427)
Total distributions	(43,709,601)	(20,731,982)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	16,482,598	28,436,502
Reinvestment of distributions	38,189,719	18,219,794
Cost of shares redeemed	(100,561,920)	(52,068,358)
Net increase (decrease) in net assets from Class A share transactions	(45,889,603)	(5,412,062)
Class B		
Proceeds from shares sold	5,401,154	8,559,228
Reinvestment of distributions	5,519,882	2,512,188
Cost of shares redeemed	(42,573,159)	(13,802,899)
Net increase (decrease) in net assets from Class B share transactions	(31,652,123)	(2,731,483)
Increase (decrease) in net assets	(106,377,650)	21,261,454
Net assets at beginning of period	359,434,414	338,172,960
Net assets at end of period (including undistributed net investment income of $3,469,179 and $3,565,164, respectively)	**$ 253,056,764**	**$ 359,434,414**

Other Information		
Class A		
Shares outstanding at beginning of period	19,412,716	19,752,422
Shares sold	1,075,933	1,871,977
Shares issued to shareholders in reinvestment of distributions	2,657,601	1,231,899
Shares redeemed	(6,630,330)	(3,443,582)
Net increase (decrease) in Class A shares	(2,896,796)	(339,706)
Shares outstanding at end of period	**16,515,920**	**19,412,716**
Class B		
Shares outstanding at beginning of period	2,824,828	2,986,497
Shares sold	372,774	566,366
Shares issued to shareholders in reinvestment of distributions	384,392	169,857
Shares redeemed	(2,826,514)	(897,892)
Net increase (decrease) in Class B shares	(2,069,348)	(161,669)
Shares outstanding at end of period	**755,480**	**2,824,828**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$16.17**	**$14.88**	**$13.65**	**$11.84**	**$ 9.37**
Income (loss) from investment operations:					
Net investment income[a]	.17	.17[b]	.14	.13	.08
Net realized and unrealized gain (loss)	.36	2.07	1.22	1.76	2.45
Total from investment operations	.53	2.24	1.36	1.89	2.53
Less distributions from:					
Net investment income	(.18)	(.14)	(.13)	(.08)	(.06)
Net realized gains	(1.87)	(.81)	—	—	—
Total distributions	(2.05)	(.95)	(.13)	(.08)	(.06)
Net asset value, end of period	**$14.65**	**$16.17**	**$14.88**	**$13.65**	**$11.84**
Total Return (%)	3.50	15.65[b]	10.06	16.04	27.25
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	242	314	294	283	242
Ratio of expenses (%)	.71	.71	.70	.70	.71
Ratio of net investment income (%)	1.13	1.12[b]	1.00	1.08	.82
Portfolio turnover rate (%)	275	226	288	249	182

a *Based on average shares outstanding during the period.*

b *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.02%. Excluding this non-recurring income, total return would have been 0.02% lower.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$16.12**	**$14.83**	**$13.60**	**$11.80**	**$ 9.35**
Income (loss) from investment operations:					
Net investment income[a]	.11	.11[b]	.09	.09	.04
Net realized and unrealized gain (loss)	.36	2.07	1.22	1.74	2.45
Total from investment operations	.47	2.18	1.31	1.83	2.49
Less distributions from:					
Net investment income	(.11)	(.08)	(.08)	(.03)	(.04)
Net realized gains	(1.87)	(.81)	—	—	—
Total distributions	(1.98)	(.89)	(.08)	(.03)	(.04)
Net asset value, end of period	**$14.61**	**$16.12**	**$14.83**	**$13.60**	**$11.80**
Total Return (%)	3.15	15.19[b]	9.68	15.55	26.76
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	11	46	44	37	17
Ratio of expenses (%)	1.09	1.09	1.09	1.08	1.10
Ratio of net investment income (%)	.75	.74[b]	.61	.70	.43
Portfolio turnover rate (%)	275	226	288	249	182

a *Based on average shares outstanding during the period.*

b *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.02%. Excluding this non-recurring income, total return would have been 0.02% lower.*

DWS Core Fixed Income VIP

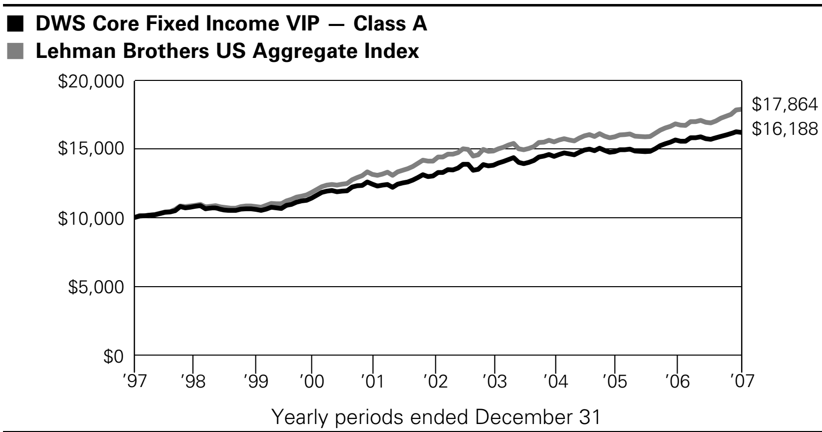
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .67% and 1.06% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the Portfolio, can decline and the investor can lose principal value. In the recent market environment, mortgage-backed securities are experiencing increased volatility. Investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. 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.

Growth of an Assumed $10,000 Investment in DWS Core Fixed Income VIP



The Lehman Brothers US Aggregate Index is an unmanaged, market value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Core Fixed Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,417	$11,105	$12,203	$16,188
	Average annual total return	4.17%	3.55%	4.06%	4.93%
Lehman Brothers US Aggregate Index	Growth of $10,000	$10,697	$11,431	$12,417	$17,864
	Average annual total return	6.97%	4.56%	4.42%	5.97%

DWS Core Fixed Income VIP		1-year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,375	$10,978	$11,972	$12,605
	Average annual total return	3.75%	3.16%	3.67%	4.30%
Lehman Brothers US Aggregate Index	Growth of $10,000	$10,697	$11,431	$12,417	$13,190
	Average annual total return	6.97%	4.56%	4.42%	5.16%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Core Fixed Income VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,032.30	$1,030.60
Expenses Paid per $1,000*	$ 3.33	$ 5.37

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,021.93	$1,019.91
Expenses Paid per $1,000*	$ 3.31	$ 5.35

* *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**
DWS Variable Series II — DWS Core Fixed Income VIP	.65%	1.05%

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

These tables do not 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.

DWS Core Fixed Income VIP

The year began with a yield curve that was slightly inverted between two and 30 years, meaning that short-term rates were actually higher than long-term rates.[1] As the period progressed, market expectations were increasingly for stronger economic growth, and inflationary concerns caused the yield curve to steepen somewhat. The last half of the year was the most eventful and did the most to determine fixed-income investor returns. The summer, in particular, saw extreme volatility occasioned by the subprime mortgage crisis. As investors sought to protect against risks that were difficult to assess, liquidity disappeared in the broader fixed-income markets. Ultimately, this risk aversion caused a period of very high financial market volatility as well as a flight to quality, the principal manifestation of which was increased interest in US Treasury securities. Between September and November, the US Federal Reserve Board (the Fed) lowered the benchmark short-term rate by 100 basis points (1.0%) to its year-end level of 4.25%.

During the 12-month period ended December 31, 2007, the Portfolio provided a total return of 4.17% (Class A shares, unadjusted for contract charges) compared with the 6.97% return of its benchmark, the Lehman Brothers US Aggregate Index. The Portfolio's strategy of emphasizing fixed-income sectors that trade at a yield spread to Treasuries detracted from relative performance as investors sought refuge in the government backing of Treasuries in the second half of the year.[2] We had increased exposure to commercial mortgage-backed securities in the middle of 2007 as their yield spreads versus Treasuries tripled. However, in the liquidity drain that ensued, these spreads tripled yet again as Treasuries continued to outperform. Within the residential mortgage sector our allocation to prime hybrid adjustable rate mortgages (ARMs) suffered from the same liquidity drain as all short-term spread sectors.[3] While the portfolio was underweight corporate bonds, within the sector it was overweight financials, which underperformed duration-equivalent Treasuries by a wide margin.[4]

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Risk Considerations

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the Portfolio, can decline and the investor can lose principal value. Investments by the Portfolio in lower-rated bonds present greater risk to principal and income than investments in higher-quality securities. 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. In the current market environment, mortgage-backed securities are experiencing increased volatility. Please see this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Lehman Brothers US Aggregate Index is an unmanaged, market value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *The yield curve is a graph with a left-to-right line that shows how high or low yields are, from the shortest to the longest maturities. Typically (and when the yield curve is characterized as "steep," this is especially true) the line rises from left to right as investors who are willing to tie up their money for a longer period are rewarded with higher yields.*

2 *The yield spread is the difference between the yield of a security and the yield of a comparable duration Treasury. A large spread indicates that investors require yields substantially above those of Treasuries in order to invest in lower-quality bonds. This is generally indicative of a higher-risk environment. A smaller spread generally indicates a more positive environment, since investors are less concerned about risk and therefore willing to accept lower yields. A drop in the yield spread is a positive.*

3 *Spread sectors are non-Treasury bond sectors of the fixed-income market.*

4 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

Duration is a measure of bond price volatility. Duration can be defined as the approximate percentage change in price for a 100-basis-point (one single percentage point) change in market interest rate levels. A duration of 1.25, for example, means that the price of a bond or bond portfolio should rise by approximately 1.25% for a one-percentage-point drop in interest rates, and that it should fall by 1.25% for a one-percentage-point rise in interest rates.

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Core Fixed Income VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Commercial and Non-Agency Mortgage Backed Securities	37%	29%
Corporate Bonds	20%	19%
Mortgage-Backed Securities Pass-Throughs	17%	12%
Government & Agency Obligations	14%	10%
Collateralized Mortgage Obligations	7%	13%
Asset Backed	3%	10%
Municipal Bonds and Notes	2%	5%
Cash Equivalents	—	2%
	100%	100%

Bond Diversification (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/07**	**12/31/06**
Financials	59%	48%
Utilities	20%	20%
Consumer Staples	6%	—
Materials	5%	1%
Information Technology	3%	—
Industrials	2%	2%
Consumer Discretionary	2%	12%
Energy	2%	9%
Telecommunication Services	1%	8%
	100%	100%

Quality (Excludes Securities Lending Collateral)	**12/31/07**	**12/31/06**
US Government and Agencies	38%	35%
AAA*	42%	45%
AA	2%	—
A	7%	7%
BBB	11%	11%
BB	—	2%
	100%	100%

* *Includes cash equivalents*

Effective Maturity (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/07**	**12/31/06**
Under 1 year	2%	9%
1–4.99 years	48%	37%
5–9.99 years	39%	39%
10–14.99 years	1%	5%
15 years or greater	10%	10%
	100%	100%

Asset allocation, bond diversification, quality and effective maturity are subject to change.

Weighted average effective maturity: 6.7 years and 6.9 years, respectively.

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 Portfolio's quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 47. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day 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, 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.

DWS Core Fixed Income VIP

	Principal Amount ($)	Value ($)
Corporate Bonds 19.0%		
Consumer Discretionary 0.3%		
Comcast Cable Holdings LLC:		
9.875%, 6/15/2022	250,000	338,875
10.125%, 4/15/2022	363,000	481,315
		820,190
Consumer Staples 1.1%		
CVS Caremark Corp., 6.302%, 6/1/2037	1,949,000	1,883,791
Tesco PLC, 144A, 6.15%, 11/15/2037	900,000	879,245
Wal-Mart Stores, Inc., 5.875%, 4/5/2027 (a)	171,000	168,177
		2,931,213
Energy 0.3%		
TransCanada PipeLines Ltd., 6.35%, 5/15/2067	825,000	**773,256**
Financials 11.2%		
Axa, 144A, 6.379%, 12/14/2049	625,000	538,626
Banco Mercantil del Norte SA, Series A, 144A, 6.862%, 10/13/2021	610,000	600,179
Corp. Andina de Fomento:		
5.75%, 1/12/2017	580,000	574,209
6.875%, 3/15/2012	210,000	224,075
Dresdner Funding Trust I, 144A, 8.151%, 6/30/2031	985,000	1,004,629
Erac USA Finance Co.:		
144A, 5.8%, 10/15/2012	545,000	540,678
144A, 7.0%, 10/15/2037	1,285,000	1,167,074
144A, 8.0%, 1/15/2011	1,346,000	1,440,173
Farmers Insurance Exchange, 144A, 8.625%, 5/1/2024	940,000	1,046,779
FPL Group Capital, Inc.:		
6.65%, 6/15/2067	859,000	827,311
Series D, 7.3%, 9/1/2067	275,000	280,994
Glen Meadow Pass-Through Trust, 144A, 6.505%, 2/12/2067	935,000	889,063
Goldman Sachs Capital II, 5.793%, 12/29/2049	2,920,000	2,599,749
ICICI Bank Ltd., 144A, 5.75%, 1/12/2012 (a)	925,000	889,761
Mangrove Bay Pass-Through Trust, 144A, 6.102%, 7/15/2033	1,010,000	906,889
MUFG Capital Finance 1 Ltd., 6.346%, 7/29/2049	525,000	497,245
Oil Insurance Ltd., 144A, 7.558%, 12/29/2049	890,000	906,777
PartnerRe Finance II, 6.44%, 12/1/2066	697,000	613,073
Royal Bank of Scotland Group PLC:		
144A, 6.99%, 10/29/2049	630,000	628,105
Series U, 7.64%, 3/31/2049	600,000	616,856
Santander Perpetual SA, 144A, 6.671%, 10/29/2049	700,000	701,882
StanCorp. Financial Group, Inc., 6.9%, 5/29/2067	940,000	885,198
Standard Chartered PLC, 144A, 7.014%, 12/30/2049 (a)	900,000	852,152
Stoneheath Re, 6.868%, 12/29/2049	250,000	249,925
Sumitomo Mitsui Banking Corp., 144A, 5.625%, 7/29/2049	715,000	667,623
The Travelers Companies, Inc., 6.25%, 3/15/2037	310,000	290,714
TNK-BP Finance SA:		
Series 5,144A, 7.5%, 3/13/2013	365,000	364,088
Series 6,144A, 7.875%, 3/13/2018 (a)	320,000	316,000
UDR, Inc., Series E, (REIT), 3.9%, 3/15/2010	345,000	335,704
USB Capital IX, 6.189%, 4/15/2049	2,110,000	1,909,577
Wachovia Capital Trust III, 5.8%, 3/15/2042	915,000	817,598
Washington Mutual Preferred Funding, Series 2007-B, 144A, 9.75%, 10/29/2049	400,000	320,000
Wells Fargo & Co., 5.25%, 10/23/2012	1,090,000	1,108,129
Woori Bank, 144A, 6.208%, 5/2/2037	765,000	664,081
XL Capital Ltd., Series E, 6.5%, 12/31/2049 (a)	590,000	515,873
Xstrata Finance Canada Ltd., 144A, 6.9%, 11/15/2037	895,000	890,187
ZFS Finance USA Trust V, 144A, 6.5%, 5/9/2037	1,000,000	923,188
		28,604,164
Industrials 0.5%		
General Electric Co., 5.25%, 12/6/2017	1,160,000	1,157,524
United States Steel Corp., 5.65%, 6/1/2013	4,000	3,875
		1,161,399
Information Technology 0.6%		
Broadridge Financial Solutions, Inc., 6.125%, 6/1/2017	823,000	813,356
Tyco Electronics Group SA, 144A, 6.0%, 10/1/2012	695,000	712,201
		1,525,557
Materials 0.9%		
Celulosa Arauco y Constitucion SA, 5.625%, 4/20/2015	1,295,000	1,264,728
Vale Overseas Ltd., 6.875%, 11/21/2036	940,000	950,914
		2,215,642
Telecommunication Services 0.3%		
Nextel Communications, Inc., Series D, 7.375%, 8/1/2015	492,000	484,433
Qwest Corp., 7.625%, 6/15/2015	234,000	238,095
		722,528
Utilities 3.8%		
Arizona Public Service Co., 6.875%, 8/1/2036	1,045,000	1,066,455
Commonwealth Edison Co., Series 98, 6.15%, 3/15/2012	980,000	1,014,649
Dominion Resources, Inc.:		
Series 06-B, 6.3%, 9/30/2066	560,000	544,562
7.5%, 6/30/2066	640,000	632,745

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

	Principal Amount ($)	Value ($)
Entergy Mississippi, Inc., 5.92%, 2/1/2016	400,000	398,547
Integrys Energy Group, Inc., 6.11%, 12/1/2066	1,305,000	1,201,749
Pedernales Electric Cooperative, Series 2002-A, 144A, 6.202%, 11/15/2032	1,715,000	1,733,316
PPL Capital Funding, Inc., Series A, 6.7%, 3/30/2067	1,580,000	1,453,755
Wisconsin Energy Corp., Series A, 6.25%, 5/15/2067	1,795,000	1,664,649
		9,710,427
Total Corporate Bonds (Cost $50,584,512)		**48,464,376**

Asset Backed 2.8%

Home Equity Loans

	Principal Amount ($)	Value ($)
Ameriquest Mortgage Securities, Inc., "A5", Series 2004-FR1, 4.455%, 5/25/2034	2,139,073	2,115,835
Countrywide Asset-Backed Certificates:		
"A6", Series 2006-S6, 5.657%, 3/25/2034	1,840,000	1,590,521
"A6", Series 2006-15, 5.826%, 10/25/2046	640,000	594,794
"A1B", Series 2007-S1, 5.888%, 11/25/2036	1,007,096	999,216
"1AF6", Series 2006-11, 6.15%, 9/25/2046	1,830,000	1,629,204
Securitized Asset Backed NIM Trust, "NIM", Series 2005-FR4, 144A, 6.0%, 1/25/2036	459,930	204,000
Total Asset Backed (Cost $7,875,236)		**7,133,570**

Mortgage Backed Securities Pass-Throughs 16.3%

	Principal Amount ($)	Value ($)
Federal Home Loan Mortgage Corp., 6.0%, 12/1/2034	1,009,388	1,025,593
Federal National Mortgage Association:		
4.5%, with various maturities from 5/1/2019 until 10/1/2033	7,939,896	7,725,964
5.0%, 2/1/2034	576,255	563,064
5.5%, with various maturities from 7/1/2024 until 7/1/2037	21,187,656	21,152,137
6.0%, 4/1/2024	1,398,265	1,424,264
6.31%, 6/1/2008	1,500,000	1,501,168
6.5%, with various maturities from 3/1/2017 until 4/1/2037	8,037,982	8,267,535
8.0%, 9/1/2015	27,373	29,352
Total Mortgage Backed Securities Pass-Throughs (Cost $41,258,785)		**41,689,077**

Commercial and Non-Agency Mortgage-Backed Securities 36.2%

	Principal Amount ($)	Value ($)
Adjustable Rate Mortgage Trust:		
"3A31", Series 2005-10, 5.416%*, 1/25/2036	1,265,000	1,204,881
"1A4", Series 2006-2, 5.761%*, 5/25/2036	1,705,000	1,669,293
Banc of America Commercial Mortgage, Inc.:		
"A2", Series 2007-2, 5.634%, 4/10/2049	820,000	831,625
"A2", Series 2007-3, 5.659%*, 6/10/2049	660,000	671,636
"AM", Series 2007-4, 5.812%*, 2/10/2051	545,000	550,514
Banc of America Mortgage Securities, Inc., "1A20", Series 2005-3, 5.5%, 4/25/2035	1,840,000	1,846,285
Bank of America Commercial Mortgage Trust, "H", 144A, 5.84%*, 6/10/2049	1,050,000	704,905
Bear Stearns Adjustable Rate Mortgage Trust:		
"A1", Series 2006-1, 4.625%*, 2/25/2036	3,650,081	3,595,130
"2A1", Series 2006-4, 5.802%*, 10/25/2036	1,475,975	1,486,459
Chase Mortgage Finance Corp., "3A1", Series 2005-A1, 5.281%*, 12/25/2035	2,440,428	2,403,173
Citicorp Mortgage Securities, Inc., "1A1", Series 2004-8, 5.5%, 10/25/2034	1,005,897	1,008,480
Citigroup Commercial Mortgage Trust, "ASB", Series 2006-C5, 5.413%, 10/15/2049	1,390,000	1,396,147
Citigroup Mortgage Loan Trust, Inc.:		
"2A1", Series 2006-AR1, 4.7%*, 3/25/2036	1,245,427	1,225,131
"1A1", Series 2006-AR1, 4.9%*, 10/25/2035	403,827	401,451
"1A2", Series 2006-AR2, 5.532%*, 3/25/2036	1,994,810	2,004,996
"1CB2", Series 2004-NCM2, 6.75%, 8/25/2034	984,883	1,012,275
Citigroup/Deutsche Bank Commercial Mortgage Trust, "F", Series 2007-CD4, 5.555%, 12/11/2049	960,000	787,348
CitiMortgage Alternative Loan Trust, "A1", Series 2006-A2, 6.0%, 5/25/2036	1,610,258	1,612,609
Countrywide Alternative Loan Trust:		
"A2", Series 2003-6T2, 5.0%, 6/25/2033	157,771	157,707
"A2", Series 2003-21T1, 5.25%, 12/25/2033	1,042,625	1,041,219
"A6", Series 2004-14T2, 5.5%, 8/25/2034	946,379	936,602
"7A1", Series 2004-J2, 6.0%, 12/25/2033	231,851	234,315
"1A1", Series 2004-J1, 6.0%, 2/25/2034	156,163	155,089
GE Capital Commercial Mortgage Corp., "AJ", Series 2007-C1, 5.677%, 12/10/2049	2,090,000	1,992,802
GS Mortgage Securities Corp. II:		
"A2", Series 2006-GG8, 5.479%, 11/10/2039	1,870,000	1,888,485
"C", Series 1998-C1, 6.91%, 10/18/2030	1,260,000	1,270,106
IndyMac Inda Mortgage Loan Trust, "1A1", Series 2006-AR3, 5.355%*, 12/25/2036	1,851,690	1,849,205

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

	Principal Amount ($)	Value ($)
IndyMac Index Mortgage Loan Trust, "3A1", Series 2006-AR33, 5.782%*, 1/25/2037	1,448,608	1,444,741
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"ASB", Series 2007-CB19, 5.73%*, 2/12/2049	1,680,000	1,721,115
"A2", Series 2007-LD11, 5.804%*, 6/15/2049	2,430,000	2,483,720
"ASB", Series 2007-LD11, 5.819%*, 6/15/2049	3,180,000	3,270,874
"H", Series 2007-LD11, 144A, 5.819%*, 6/15/2049	1,610,000	1,096,727
JPMorgan Mortgage Trust:		
"6A1", Series 2007-A1, 4.778%*, 7/25/2035	1,670,376	1,650,018
"2A4L", Series 2006-A6, 5.564%*, 10/25/2036	1,840,000	1,785,684
"2A4", Series 2006-A2, 5.752%*, 4/25/2036	2,565,000	2,517,519
Lehman Mortgage Trust:		
"3A3", Series 2006-1, 5.5%, 2/25/2036	1,740,925	1,728,876
"1A10", Series 2006-3, 6.0%, 7/25/2036	1,617,148	1,612,850
Master Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	535,668	527,312
"5A1", Series 2005-2, 6.5%, 12/25/2034	154,906	157,956
"8A1", Series 2004-3, 7.0%, 4/25/2034	40,141	40,582
Master Asset Securitization Trust, "2A7", Series 2003-9, 5.5%, 10/25/2033	1,103,879	1,092,496
Merrill Lynch Mortgage Investors Trust, "A2", Series 2005-A5, 4.566%, 6/25/2035	210,000	207,615
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 5.829%*, 6/12/2050	900,000	928,146
Morgan Stanley Capital I:		
"A2", Series 2007-HQ11, 5.359%, 2/12/2044	1,800,000	1,806,687
"AAB", Series 2007-IQ14, 5.654%, 4/15/2049	1,845,000	1,872,918
Residential Accredit Loans, Inc.:		
"3A1", Series 2006-QS18, 5.75%, 12/25/2021	1,480,948	1,481,629
"CB", Series 2004-QS2, 5.75%, 2/25/2034	673,825	668,350
Residential Funding Mortgage Security I, "2A2", Series 2007-SA1, 5.622%*, 2/25/2037	2,389,350	2,396,946
Sequoia Mortgage Trust, "2A1", Series 2007-1, 5.823%*, 2/20/2047	2,480,938	2,500,632
Structured Adjustable Rate Mortgage Loan Trust:		
"6A3", Series 2005-21, 5.4%, 11/25/2035	1,485,000	1,388,131
"2A1", Series 2006-1, 5.62%*, 2/25/2036	1,291,063	1,280,950
"1A1", Series 2005-18, 5.655%*, 9/25/2035	1,089,737	1,064,870
Structured Asset Securities Corp., "4A1", Series 2005-6, 5.0%, 5/25/2035	688,726	660,962
Wachovia Bank Commercial Mortgage Trust:		
"A3", Series 2007-C30, 5.246%, 12/15/2043	1,310,000	1,307,643
"AJ", Series 2007-C30, 5.413%, 12/15/2043	1,850,000	1,731,200
Wachovia Mortgage Loan Trust LLC, "3A1", Series 2005-B, 5.154%*, 10/20/2035	2,315,804	2,275,640
Washington Mutual Mortgage Pass-Through Certificates Trust:		
"2A1", Series 2002-S8, 4.5%, 1/25/2018	59,321	59,196
"A1", Series 2003-S7, 4.5%, 8/25/2018	1,641,318	1,603,363
"1A3", Series 2005-AR16, 5.101%*, 12/25/2035	1,660,000	1,654,137
"1A1", Series 2007-HY4, 5.554%*, 4/25/2037	2,502,813	2,491,097
"1A1", Series 2006-AR16, 5.608%*, 12/25/2036	2,184,008	2,176,832
"1A1", Series 2007-HY2, 5.628%*, 12/25/2036	2,463,238	2,473,691
Wells Fargo Mortgage Backed Securities Trust:		
"A4", Series 2005-AR14, 5.387%*, 8/25/2035	1,700,000	1,613,894
"A1", Series 2006-3, 5.5%, 3/25/2036	1,980,480	1,977,310
"2A5", Series 2006-AR1, 5.553%*, 3/25/2036	1,700,000	1,606,090
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $93,236,283)		**92,296,267**

Collateralized Mortgage Obligations 7.1%

	Principal Amount ($)	Value ($)
Fannie Mae Whole Loan, "1A1", Series 2004-W15, 6.0%, 8/25/2044	1,018,011	1,057,363
Federal Home Loan Mortgage Corp.:		
"LN", Series 3145, 4.5%, 10/15/2034	1,778,962	1,750,170
"PD", Series 2890, 5.0%, 3/15/2033	1,485,000	1,448,136
"OG", Series 2889, 5.0%, 5/15/2033	1,770,000	1,726,144
"PE", Series 2898, 5.0%, 5/15/2033	860,000	838,487
"XD", Series 2941, 5.0%, 5/15/2033	1,055,000	1,028,013
"BG", Series 2869, 5.0%, 7/15/2033	335,000	327,003
"KD", Series 2915, 5.0%, 9/15/2033	1,341,000	1,309,092
"NE", Series 2921, 5.0%, 9/15/2033	2,275,000	2,222,234
"PE", Series 2165, 6.0%, 6/15/2029	1,512,344	1,555,043
Federal National Mortgage Association:		
"QD", Series 2005-29, 5.0%, 8/25/2033	435,000	423,554
"HE", Series 2005-22, 5.0%, 10/25/2033	1,540,000	1,499,535
"PG", Series 2002-3, 5.5%, 2/25/2017	500,000	506,337

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

	Principal Amount ($)	Value ($)
"PH", Series 1999-19, 6.0%, 5/25/2029	1,502,687	1,538,913
"Z", Series 2001-14, 6.0%, 5/25/2031	946,867	967,304
Total Collateralized Mortgage Obligations (Cost $18,110,537)		**18,197,328**

Municipal Bonds and Notes 2.1%

Indiana, Bond Bank Revenue, School Severance Funding, Series 11, 6.01%, 7/15/2021 (b)	1,965,000	2,034,541
Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013	945,000	962,237
Menasha, WI, Anticipation Notes, Series B, 5.65%, 9/1/2009	1,310,000	1,320,767
Michigan, Western Michigan University Revenue, 4.41%, 11/15/2014 (b)	1,010,000	1,013,939
Total Municipal Bonds and Notes (Cost $5,197,839)		**5,331,484**

Government & Agency Obligations 13.8%

US Treasury Obligations

US Treasury Bonds, 6.0%, 2/15/2026	12,695,000	15,023,745
US Treasury Notes:		
3.875%, 10/31/2012 (a)	16,253,000	16,571,705
4.0%, 2/15/2015	935,000	948,222
4.25%, 11/15/2017 (a)	2,670,000	2,716,517
Total Government & Agency Obligations (Cost $34,956,180)		**35,260,189**

	Shares	Value ($)
Preferred Stocks 0.2%		
Arch Capital Group Ltd., 8.0%	7,384	183,216
Delphi Financial Group, Inc., 7.376%	22,600	418,807
Total Preferred Stocks (Cost $751,264)		**602,023**

Securities Lending Collateral 1.9%

Daily Assets Fund Institutional, 5.03% (c) (d) (Cost $4,951,185)	4,951,185	**4,951,185**

Cash Equivalents 0.3%

Cash Management QP Trust, 4.67% (c) (Cost $664,244)	664,244	**664,244**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $257,586,065)†	99.7	**254,589,743**
Other Assets and Liabilities, Net	0.3	**684,885**
Net Assets	100.0	**255,274,628**

* *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, 2007.*

† *The cost for federal income tax purposes was $257,629,180. At December 31, 2007, net unrealized depreciation for all securities based on tax cost was $3,039,437. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,926,535 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,965,972.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $4,749,909 which is 1.9% of net assets.*

(b) *Bond is insured by one of these companies:*

Insurance Coverage	As a % of Total Investment Portfolio
Ambac Financial Group	0.4
XL Capital Insurance	0.8

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

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

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

REIT: Real Estate Investment Trust

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in the investment portfolio.

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets		
Investments:		
Investments in securities, at value (cost $251,970,636) — including $4,749,909 of securities loaned	$	248,974,314
Investment in Daily Assets Fund Institutional (cost $4,951,185)*		4,951,185
Investment in Cash Management QP Trust (cost $664,244)		664,244
Total investments, at value (cost $257,586,065)		254,589,743
Cash		97,782
Receivable for investments sold		9,339,936
Interest receivable		1,941,187
Foreign taxes recoverable		12,614
Other assets		7,864
Total assets		265,989,126
Liabilities		
Payable upon return of securities loaned		4,951,185
Payable for investments purchased		4,447,848
Payable for Portfolio shares redeemed		934,387
Accrued management fee		154,719
Other accrued expenses and payables		226,359
Total liabilities		10,714,498
Net assets, at value	**$**	**255,274,628**
Net Assets Consist of		
Undistributed net investment income		16,731,325
Net unrealized appreciation (depreciation) on investments		(2,996,322)
Accumulated net realized gain (loss)		(4,622,767)
Paid-in capital		246,162,392
Net assets, at value	**$**	**255,274,628**
Class A		
Net Asset Value, offering and redemption price per share ($186,245,694 ÷ 15,754,867 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.82**
Class B		
Net Asset Value, offering and redemption price per share ($69,028,934 ÷ 5,850,161 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.80**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income		
Income:		
Dividends	$	34,679
Interest (net of foreign taxes withheld of $1,572)		18,927,680
Interest — Cash Management QP Trust		506,204
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		169,632
Total Income		19,638,195
Expenses:		
Management fee		2,144,122
Services to shareholders		368
Custodian fee		21,277
Distribution service fee (Class B)		189,948
Record keeping fees (Class B)		107,921
Professional fees		72,602
Trustees' fees and expenses		34,742
Reports to shareholders		77,398
Registration fees		686
Other		32,752
Total expenses before expense reductions		2,681,816
Expense reductions		(5,976)
Total expenses after expense reductions		2,675,840
Net investment income (loss)		**16,962,355**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		(784,875)
Change in net unrealized appreciation (depreciation) on investments		(1,784,782)
Net gain (loss)		**(2,569,657)**
Net increase (decrease) in net assets resulting from operations	**$**	**14,392,698**

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, 2007	2006
Operations:		
Net investment income	$ 16,962,355	$ 15,881,888
Net realized gain (loss)	(784,875)	(3,380,379)
Change in net unrealized appreciation (depreciation)	(1,784,782)	2,452,304
Net increase (decrease) in net assets resulting from operations	14,392,698	14,953,813
Distributions to shareholders from:		
Net investment income:		
Class A	(12,441,885)	(9,250,155)
Class B	(3,150,565)	(2,794,336)
Net realized gains:		
Class A	—	(40,873)
Class B	—	(13,997)
Total distributions	(15,592,450)	(12,099,361)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	84,886,024	91,229,471
Reinvestment of distributions	12,441,885	9,291,028
Cost of shares redeemed	(187,114,199)	(77,798,091)
Net increase (decrease) in net assets from Class A share transactions	(89,786,290)	22,722,408
Class B		
Proceeds from shares sold	2,831,011	10,023,723
Reinvestment of distributions	3,150,565	2,808,333
Cost of shares redeemed	(19,070,128)	(19,326,554)
Net increase (decrease) in net assets from Class B share transactions	(13,088,552)	(6,494,498)
Increase (decrease) in net assets	(104,074,594)	19,082,362
Net assets at beginning of period	359,349,222	340,266,860
Net assets at end of period (including undistributed net investment income of $16,731,325 and $15,361,420, respectively)	**$ 255,274,628**	**$ 359,349,222**

Other Information		
Class A		
Shares outstanding at beginning of period	23,346,010	21,303,867
Shares sold	7,294,758	7,951,409
Shares issued to shareholders in reinvestment of distributions	1,080,025	821,488
Shares redeemed	(15,965,926)	(6,730,754)
Net increase (decrease) in Class A shares	(7,591,143)	2,042,143
Shares outstanding at end of period	**15,754,867**	**23,346,010**
Class B		
Shares outstanding at beginning of period	6,968,915	7,523,292
Shares sold	242,748	863,400
Shares issued to shareholders in reinvestment of distributions	273,249	248,086
Shares redeemed	(1,634,751)	(1,665,863)
Net increase (decrease) in Class B shares	(1,118,754)	(554,377)
Shares outstanding at end of period	**5,850,161**	**6,968,915**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Date					
Net asset value, beginning of period	**$11.86**	**$11.81**	**$12.07**	**$12.16**	**$11.98**
Income (loss) from investment operations:					
Net investment income[a]	.56	.53	.47	.50	.45
Net realized and unrealized gain (loss)	(.08)	(.05)	(.21)	.05	.14
Total from investment operations	.48	.48	.26	.55	.59
Less distributions from:					
Net investment income	(.52)	(.43)	(.41)	(.43)	(.41)
Net realized gains	—	(.00)*	(.11)	(.21)	—
Total distributions	(.52)	(.43)	(.52)	(.64)	(.41)
Net asset value, end of period	**$11.82**	**$11.86**	**$11.81**	**$12.07**	**$12.16**
Total Return (%)	4.17	4.26	2.25	4.53	5.13
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	186	277	252	210	201
Ratio of expenses (%)	.66	.68	.67	.66	.66
Ratio of net investment income (loss) (%)	4.78	4.56	3.96	4.18	3.75
Portfolio turnover rate (%)[b]	197	183	164	185	229

[a] *Based on average shares outstanding during the period.*

[b] *The portfolio turnover rate including mortgage dollar roll transactions was 209%, 198%, 241%, 176% and 204% for the years ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004 and December 31, 2003, respectively.*

* *Amount is less than $.005*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$11.84**	**$11.78**	**$12.04**	**$12.13**	**$11.96**
Income (loss) from investment operations:					
Net investment income[a]	.51	.49	.42	.45	.40
Net realized and unrealized gain (loss)	(.08)	(.05)	(.21)	.05	.15
Total from investment operations	.43	.44	.21	.50	.55
Less distributions from:					
Net investment income	(.47)	(.38)	(.36)	(.38)	(.38)
Net realized gains	—	(.00)*	(.11)	(.21)	—
Total distributions	(.47)	(.38)	(.47)	(.59)	(.38)
Net asset value, end of period	**$11.80**	**$11.84**	**$11.78**	**$12.04**	**$12.13**
Total Return (%)	3.75	3.89	1.85	4.10	4.76
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	69	82	89	88	45
Ratio of expenses (%)	1.05	1.07	1.07	1.03	1.05
Ratio of net investment income (loss) (%)	4.39	4.17	3.56	3.81	3.36
Portfolio turnover rate (%)[b]	197	183	164	185	229

[a] *Based on average shares outstanding during the period.*

[b] *The portfolio turnover rate including mortgage dollar roll transactions was 209%, 198%, 241%, 176% and 204% for the years ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004 and December 31, 2003, respectively.*

* *Amount is less than $.005*

DWS Davis Venture Value VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

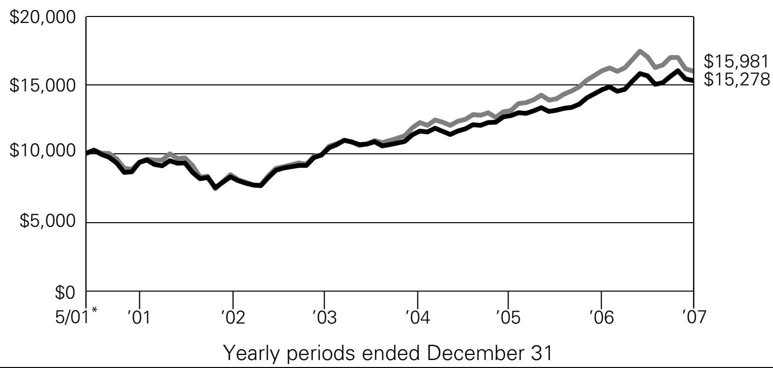
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 1.02% and 1.40% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the year ended December 31, 2007.

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. 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. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for all periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Davis Venture Value VIP from 5/1/2001 to 12/31/2007

■ **DWS Davis Venture Value VIP — 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 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

DWS Davis Venture Value VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$10,446	$13,152	$19,097	$15,278
	Average annual total return	4.46%	9.56%	13.81%	6.56%
Russell 1000 Value Index	Growth of $10,000	$9,983	$13,064	$19,789	$15,981
	Average annual total return	–.17%	9.32%	14.63%	7.29%

DWS Davis Venture Value VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$10,414	$13,006	$18,754	$17,566
	Average annual total return	4.14%	9.16%	13.40%	10.79%
Russell 1000 Value Index	Growth of $10,000	$9,983	$13,064	$19,789	$17,556
	Average annual total return	–.17%	9.32%	14.63%	10.77%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 2001. Index returns began on April 30, 2001.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Davis Venture Value VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$ 977.20	$ 975.20
Expenses Paid per $1,000*	$ 4.34	$ 6.27
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,020.82	$1,018.85
Expenses Paid per $1,000*	$ 4.43	$ 6.41

* *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
DWS Variable Series II — DWS Davis Venture Value VIP	.87%	1.26%

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

These tables do not 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.

DWS Davis Venture Value VIP

For the year ended December 31, 2007, the Class A shares of DWS Davis Venture Value VIP returned 4.46%, compared to its benchmark, the Russell 1000® Value Index, which returned –0.17%.

The energy sector was the top-performing sector of the Russell 1000 Value Index. Energy companies were also the most important contributors to the Portfolio's performance over the year. The Portfolio's energy companies outperformed the corresponding sector within the Russell 1000 Value Index. ConocoPhillips, Occidental Petroleum Corp., China Coal Energy Co., Devon Energy Corp., EOG Resources, Inc. and Transocean, Inc. were among the top contributors to performance.

The Portfolio made a significant investment in consumer staple companies, and they were the second most important contributors to performance. The Portfolio's consumer staple companies outperformed the corresponding sector within the Russell 1000 Value Index and the Portfolio also benefited from a higher relative weighting in this sector. Altria Group, Inc. and Costco Wholesale Corp. were among the top contributors to performance.

The financial sector was the worst-performing sector of the Russell 1000 Value Index. The Portfolio's financial companies outperformed the corresponding sector within the Russell 1000 Value Index, but were still the largest detractors from performance. Berkshire Hathaway, Inc. was among the top contributors to performance. Citigroup, Inc., American International Group, Inc., Wachovia Corp., American Express Co., Moodys Corp. and Ambac Financial Group, Inc. were among the top detractors from performance.

The Portfolio held 13% of assets in foreign companies at year-end. As a whole, these companies outperformed the domestic companies held by the Portfolio.

Christopher C. Davis
Kenneth Charles Feinberg

Portfolio Managers
Davis Selected Advisers, L.P., Subadvisor to the Portfolio

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. 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. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell 1000 Value Index is an unmanaged index that 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 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, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Davis Venture Value VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	100%	99%
Cash Equivalents	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Financials	33%	38%
Energy	16%	12%
Consumer Staples	16%	14%
Consumer Discretionary	10%	14%
Information Technology	9%	5%
Industrials	7%	7%
Materials	4%	4%
Health Care	4%	4%
Telecommunication Services	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 58. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS Davis Venture Value VIP

	Shares	Value ($)
Common Stocks 99.9%		
Consumer Discretionary 10.1%		
Automobiles 1.3%		
Harley-Davidson, Inc. (a)	88,780	**4,146,914**
Diversified Consumer Services 0.8%		
H&R Block, Inc. (a)	139,000	**2,581,230**
Household Durables 0.2%		
Hunter Douglas NV	8,863	**653,701**
Internet & Catalog Retail 0.6%		
Amazon.com, Inc.*	12,000	1,111,680
Liberty Media Corp. — Interactive "A"*	46,000	877,680
		1,989,360
Media 5.7%		
Comcast Corp. Special "A"*	376,850	6,828,522
Grupo Televisa SA (ADR)	50,000	1,188,500
Lagardere SCA	27,000	2,013,252
Liberty Media Corp. — Capital "A"*	9,260	1,078,697
News Corp. "A"	249,700	5,116,353
Virgin Media, Inc. (a)	58,232	998,096
WPP Group PLC (ADR) (a)	24,600	1,581,534
		18,804,954
Multiline Retail 0.1%		
Sears Holdings Corp.* (a)	4,900	**500,045**
Specialty Retail 1.4%		
Bed Bath & Beyond, Inc.* (a)	54,600	1,604,694
CarMax, Inc.* (a)	97,000	1,915,750
Lowe's Companies, Inc.	49,740	1,125,119
		4,645,563
Consumer Staples 15.5%		
Beverages 2.4%		
Diageo PLC (ADR)	52,000	4,463,160
Heineken Holding NV	60,200	3,391,695
		7,854,855
Food & Staples Retailing 7.7%		
Costco Wholesale Corp.	221,600	15,458,816
CVS Caremark Corp.	117,059	4,653,095
Wal-Mart Stores, Inc.	111,920	5,319,558
		25,431,469
Food Products 0.1%		
The Hershey Co. (a)	13,800	**543,720**
Household Products 1.2%		
Procter & Gamble Co.	53,000	**3,891,260**
Personal Products 0.4%		
Avon Products, Inc.	36,700	**1,450,751**
Tobacco 3.7%		
Altria Group, Inc.	160,200	**12,107,916**
Energy 16.2%		
Energy Equipment & Services 0.9%		
Transocean, Inc.*	22,256	**3,185,946**
Oil, Gas & Consumable Fuels 15.3%		
Canadian Natural Resources Ltd. (a)	62,200	4,549,308
China Coal Energy Co. "H"	1,234,200	3,799,657
ConocoPhillips	172,420	15,224,686
Devon Energy Corp.	99,400	8,837,654
EOG Resources, Inc.	84,900	7,577,325
Occidental Petroleum Corp.	135,000	10,393,650
		50,382,280
Financials 34.5%		
Capital Markets 4.4%		
Ameriprise Financial, Inc.	59,720	3,291,169
Bank of New York Mellon Corp.	90,700	4,422,532
E*TRADE Financial Corp.* (a)	21,000	74,550
Merrill Lynch & Co., Inc. (b)	93,700	4,526,835
Morgan Stanley	27,800	1,476,458
State Street Corp.	8,700	706,440
		14,497,984
Commercial Banks 4.6%		
Commerce Bancorp, Inc. (a)	51,900	1,979,466
HSBC Holdings PLC	98,694	1,655,547
Wachovia Corp.	131,487	5,000,451
Wells Fargo & Co.	218,800	6,605,572
		15,241,036
Consumer Finance 4.0%		
American Express Co.	251,500	13,083,030
Discover Financial Services	13,800	208,104
		13,291,134
Diversified Financial Services 5.1%		
Citigroup, Inc.	96,900	2,852,736
JPMorgan Chase & Co.	265,484	11,588,377
Moody's Corp. (a)	60,800	2,170,560
		16,611,673
Insurance 16.0%		
Ambac Financial Group, Inc. (a)	26,500	682,905
American International Group, Inc.	204,100	11,899,030
Aon Corp.	45,900	2,188,971
Berkshire Hathaway, Inc. "B"*	2,979	14,108,544
Loews Corp.	156,700	7,888,278
Markel Corp.*	630	309,393
MBIA, Inc. (a)	23,700	441,531
Millea Holdings, Inc.	95,200	3,217,639
NIPPONKOA Insurance Co., Ltd.	198,200	1,797,113
Principal Financial Group, Inc.	17,600	1,211,584
Progressive Corp.	270,900	5,190,444
Sun Life Financial, Inc.	10,700	598,558
Transatlantic Holdings, Inc. (a)	45,773	3,326,324
		52,860,314
Real Estate Management & Development 0.4%		
Hang Lung Group Ltd.	248,000	**1,343,941**
Health Care 4.0%		
Health Care Equipment & Supplies 1.4%		
Covidien Ltd.	107,590	**4,765,161**
Health Care Providers & Services 2.6%		
Cardinal Health, Inc.	42,400	2,448,600
Express Scripts, Inc.*	32,730	2,389,290
UnitedHealth Group, Inc.	61,300	3,567,660
		8,405,550

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

	Shares	Value ($)
Industrials 5.2%		
Air Freight & Logistics 0.6%		
Toll Holdings Ltd.	55,849	559,346
United Parcel Service, Inc. "B"	19,900	1,407,328
		1,966,674
Commercial Services & Supplies 1.0%		
Dun & Bradstreet Corp.	35,500	**3,146,365**
Industrial Conglomerates 1.3%		
Tyco International Ltd.	107,590	**4,265,943**
Marine 0.8%		
China Shipping Development Co., Ltd. "H"	450,000	1,173,531
Kuehne & Nagel International AG (Registered)	15,220	1,451,054
		2,624,585
Road & Rail 0.0%		
Asciano Group	40,900	**250,353**
Transportation Infrastructure 1.5%		
China Merchants Holdings International Co., Ltd	612,065	3,742,718
Cosco Pacific Ltd.	410,600	1,074,286
		4,817,004
Information Technology 8.9%		
Computers & Peripherals 1.8%		
Dell, Inc.*	139,500	3,419,145
Hewlett-Packard Co.	49,600	2,503,808
		5,922,953
Electronic Equipment & Instruments 1.7%		
Agilent Technologies, Inc.*	52,400	1,925,176
Tyco Electronics Ltd.	103,190	3,831,445
		5,756,621
Internet Software & Services 0.6%		
Google, Inc. "A"*	2,720	**1,880,825**
IT Services 1.6%		
Iron Mountain, Inc.* (a)	141,949	**5,254,952**
Semiconductors & Semiconductor Equipment 0.7%		
Texas Instruments, Inc.	67,900	**2,267,860**
Software 2.5%		
Microsoft Corp.	232,200	**8,266,320**
Materials 4.2%		
Construction Materials 1.6%		
Martin Marietta Materials, Inc. (a)	24,800	3,288,480
Vulcan Materials Co. (a)	24,800	1,961,432
		5,249,912
Containers & Packaging 1.5%		
Sealed Air Corp.	210,200	**4,864,028**
Metals & Mining 0.8%		
BHP Billiton PLC	36,100	1,111,951
Rio Tinto PLC	13,900	1,456,270
		2,568,221
Paper & Forest Products 0.3%		
Sino-Forest Corp. "A"*	47,400	**1,029,693**
Telecommunication Services 1.3%		
Wireless Telecommunication Services		
SK Telecom Co., Ltd. (ADR)	62,300	1,859,032
Sprint Nextel Corp.	181,630	2,384,802
		4,243,834
Total Common Stocks (Cost $212,594,017)		**329,562,900**
Securities Lending Collateral 9.0%		
Daily Assets Fund Institutional, 5.03% (c) (d) (Cost $29,876,655)	29,876,655	**29,876,655**
Cash Equivalents 0.2%		
Cash Management QP Trust, 4.67% (c) (Cost $522,943)	522,943	**522,943**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $242,993,615)†	109.1	**359,962,498**
Other Assets and Liabilities, Net	(9.1)	**(30,142,476)**
Net Assets	100.0	**329,820,022**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $243,208,909. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $116,753,589. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $124,289,594 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $7,536,005.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $29,179,972 which is 8.8% of net assets.*

(b) *The Fund may purchase securities that are subject to legal or contractual restrictions on resale ("restricted securities"). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The fund may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund might obtain a price less favorable than the price that prevailed when it decided to sell. This investment practice, therefore, could have the effect of increasing the level of illiquidity of the Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.*

Schedule of Restricted Securities	Acquisition Date	Acquisition Cost ($)	Value ($)	Value as a % of Net Assets
Merrill Lynch & Co., Inc.	December 2007	4,497,600	4,526,835	1.37%

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

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

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, 2007

Assets	
Investments:	
Investments in securities, at value (cost $212,594,017) — including $29,179,972 of securities loaned	$ 329,562,900
Investment in Daily Assets Fund Institutional (cost $29,876,655)*	29,876,655
Investment in Cash Management QP Trust (cost $522,943)	522,943
Total investments in securities, at value (cost $242,993,615)	359,962,498
Cash	10,000
Foreign currency, at value (cost $53,980)	54,220
Dividends receivable	355,659
Interest receivable	34,284
Foreign taxes recoverable	4,219
Receivable for Portfolio shares sold	171
Receivable for investments sold	532,640
Due from Advisor	1,824
Other assets	8,076
Total assets	360,963,591
Liabilities	
Payable upon return of securities loaned	29,876,655
Payable for investments purchased	315,217
Payable for Portfolio shares redeemed	609,789
Accrued management fee	215,456
Other accrued expenses and payables	126,452
Total liabilities	31,143,569
Net assets, at value	**$ 329,820,022**
Net Assets Consist of	
Undistributed net investment income	3,748,514
Net unrealized appreciation (depreciation) on:	
Investments	116,968,883
Foreign currency	(329)
Accumulated net realized gain (loss)	35,364,950
Paid-in capital	173,738,004
Net assets, at value	**$ 329,820,022**
Class A	
Net Asset Value, offering and redemption price per share ($307,290,649 ÷ 21,062,118 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 14.59**
Class B	
Net Asset Value, offering and redemption price per share ($22,529,373 ÷ 1,546,251 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 14.57**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $35,231)	$ 7,116,227
Interest — Cash Management QP Trust	217,942
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	61,596
Total Income	7,395,765
Expenses:	
Management fee	3,682,130
Custodian and accounting fees	138,788
Distribution service fee (Class B)	106,162
Record keeping fees (Class B)	52,223
Services to shareholders	286
Professional fees	74,833
Trustees' fees and expenses	27,983
Reports to shareholders	59,696
Other	24,507
Total expenses before expense reductions	4,166,608
Expense reductions	(580,367)
Total expenses after expense reductions	3,586,241
Net investment income (loss)	**3,809,524**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	36,081,199
Foreign currency	(28,183)
	36,053,016
Change in net unrealized appreciation (depreciation) on:	
Investments	(20,326,224)
Foreign currency	(358)
	(20,326,582)
Net gain (loss)	**15,726,434**
Net increase (decrease) in net assets resulting from operations	**$ 19,535,958**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 3,809,524	$ 2,775,030
Net realized gain (loss)	36,053,016	11,060,187
Change in net unrealized appreciation (depreciation)	(20,326,582)	41,776,308
Net increase (decrease) in net assets resulting from operations	19,535,958	55,611,525
Distributions to shareholders from:		
Net investment income:		
Class A	(2,451,514)	(2,082,948)
Class B	(255,608)	(214,549)
Net realized gains:		
Class A	(4,403,063)	—
Class B	(989,328)	—
Total distributions	(8,099,513)	(2,297,497)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	14,075,726	23,381,717
Reinvestment of distributions	6,854,577	2,082,948
Cost of shares redeemed	(68,408,104)	(31,847,982)
Net increase (decrease) in net assets from Class A share transactions	(47,477,801)	(6,383,317)
Class B		
Proceeds from shares sold	4,124,041	6,563,580
Reinvestment of distributions	1,244,936	214,549
Cost of shares redeemed	(65,157,088)	(15,502,095)
Net increase (decrease) in net assets from Class B share transactions	(59,788,111)	(8,723,966)
Increase (decrease) in net assets	(95,829,467)	38,206,745
Net assets at beginning of period	425,649,489	387,442,744
Net assets at end of period (including undistributed net investment income of $3,748,514 and $2,670,607, respectively)	**$ 329,820,022**	**$ 425,649,489**

Other Information		
Class A		
Shares outstanding at beginning of period	24,284,177	24,763,248
Shares sold	967,409	1,802,609
Shares issued to shareholders in reinvestment of distributions	490,313	163,496
Shares redeemed	(4,679,781)	(2,445,176)
Net increase (decrease) in Class A shares	(3,222,059)	(479,071)
Shares outstanding at end of period	**21,062,118**	**24,284,177**
Class B		
Shares outstanding at beginning of period	5,597,014	6,263,092
Shares sold	287,676	509,107
Shares issued to shareholders in reinvestment of distributions	88,987	16,827
Shares redeemed	(4,427,426)	(1,192,012)
Net increase (decrease) in Class B shares	(4,050,763)	(666,078)
Shares outstanding at end of period	**1,546,251**	**5,597,014**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$14.25**	**$12.49**	**$11.48**	**$10.31**	**$ 7.99**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.15	.10	.09	.08	.06
Net realized and unrealized gain (loss)	.47	1.74	1.01	1.14	2.31
Total from investment operations	.62	1.84	1.10	1.22	2.37
Less distributions from:					
Net investment income	(.10)	(.08)	(.09)	(.05)	(.05)
Net realized gains	(.18)	—	—	—	—
Total distributions	(.28)	(.08)	(.09)	(.05)	(.05)
Net asset value, end of period	**$14.59**	**$14.25**	**$12.49**	**$11.48**	**$10.31**
Total Return (%)	4.46[b]	14.84[b]	9.64[b]	11.83	29.84
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	307	346	309	268	220
Ratio of expenses before expense reductions (%)	1.02	1.02	1.02	1.05	1.01
Ratio of expenses after expense reductions (%)	.88	.85	.96	1.05	1.01
Ratio of net investment income (%)	1.01	.77	.78	.74	.62
Portfolio turnover rate (%)	9	16	8	3	7

a *Based on average shares outstanding during the period.*
b *Total return would have been lower had certain expenses not been reduced.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$14.22**	**$12.47**	**$11.46**	**$10.29**	**$ 7.98**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.09	.05	.04	.04	.02
Net realized and unrealized gain (loss)	.49	1.73	1.01	1.13	2.32
Total from investment operations	.58	1.78	1.05	1.17	2.34
Less distributions from:					
Net investment income	(.05)	(.03)	(.04)	(.00)*	(.03)
Net realized gains	(.18)	—	—	—	—
Total distributions	(.23)	(.03)	(.04)	(.00)*	(.03)
Net asset value, end of period	**$14.57**	**$14.22**	**$12.47**	**$11.46**	**$10.29**
Total Return (%)	4.14[b]	14.34[b]	9.23[b]	11.42	29.42
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	23	80	78	66	29
Ratio of expenses before expense reductions (%)	1.39	1.40	1.41	1.44	1.40
Ratio of expenses after expense reductions (%)	1.25	1.23	1.34	1.44	1.40
Ratio of net investment income (%)	.64	.39	.40	.36	.23
Portfolio turnover rate (%)	9	16	8	3	7

a *Based on average shares outstanding during the period.*
b *Total return would have been lower had certain expenses not been reduced.*
* *Amount is less than $.005.*

DWS Dreman High Return Equity VIP

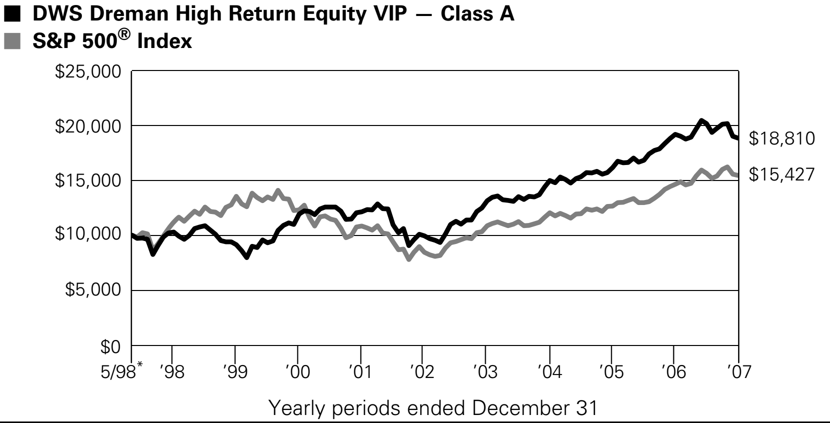
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .77% and 1.11% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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 this product's investments and risk profile.

Portfolio returns shown for all periods for Class B shares reflect a waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Dreman High Return Equity VIP from 5/4/1998 to 12/31/2007



The Standard & Poor's 500® (S&P 500) Index is an unmanaged capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Dreman High Return Equity VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$9,814	$12,575	$18,921	$18,810
	Average annual total return	–1.86%	7.94%	13.60%	6.76%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$15,427
	Average annual total return	5.49%	8.62%	12.83%	4.59%

DWS Dreman High Return Equity VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$9,781	$12,431	$18,572	$16,981
	Average annual total return	–2.19%	7.52%	13.18%	10.11%
S&P 500 Index	Growth of $10,000	$10,549	$12,816	$18,286	$16,403
	Average annual total return	5.49%	8.62%	12.83%	9.42%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 4, 1998. Index returns began on April 30, 1998.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Dreman High Return Equity VIP

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 contract charges, 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 for Class B shares; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$ 934.50	$ 933.30
Expenses Paid per $1,000*	$ 3.80	$ 5.41
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,021.27	$1,019.61
Expenses Paid per $1,000*	$ 3.97	$ 5.65

* *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**
DWS Variable Series II — DWS Dreman High Return Equity VIP	.78%	1.11%

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

These tables do not 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.

DWS Dreman High Return Equity VIP

Except for a period of weakness in late February and early March, equity markets were quite strong during the first half of 2007. By the end of May, most indices were at or near their all-time highs, and positive trends continued through mid-July before drifting lower in the late summer. A rally in September was sparked in part by the first of the US Federal Reserve Board's (the Fed's) three interest rate reductions. Volatility returned in the fourth quarter, as markets responded to further bad news about the potential impact of the subprime mortgage crisis.

For the full year, the Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, returned 5.14%. Growth stocks, as measured by the Russell 1000® Growth Index, performed significantly better than value stocks, as measured by the Russell 1000® Value index. With a return of –1.86% (Class A shares, unadjusted for contract charges), the Dreman High Return Equity VIP underperformed its benchmark, the Standard & Poor's 500® (S&P 500) Index, which posted a return of 5.49%.

The Portfolio's underperformance relative to the benchmark resulted mainly from a significant overweight in the financial sector, as well as stock selection in that sector.[1] Large positions that performed poorly include Freddie Mac, Fannie Mae and Washington Mutual, Inc., all of which have significant participation in the mortgage business. We agree with the market's view that conditions in the housing and mortgage markets are the worst in many years, but we regard the response, as demonstrated by the extreme weakness in these stocks, as a severe overreaction. We believe that stocks of the financially sound companies held in this Portfolio have the opportunity to further improve their market positions as marginal players exit the mortgage business. Although holdings in the financial sector hurt performance temporarily, we believe they are significantly undervalued and should provide above-average returns over time.

The Portfolio's largest position, Altria Group, Inc., performed very well. We continue to favor this stock, as we believe the value of both the international and the domestic tobacco businesses are greater than reflected in the current stock price.

An important positive was an overweight position in energy, a sector we find attractive because of rising world demand. Energy holdings that performed especially well were ConocoPhillips, Apache Corp., Anadarko Petroleum Corp. and Devon Energy Corp.

David N. Dreman	F. James Hutchinson	E. Clifton Hoover, Jr.
Lead Portfolio Manager	*Portfolio Managers*	

Dreman Value Management L.L.C., Subadvisor to the Portfolio

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 this product's investments and risk profile.

The Russell 3000 Index measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Standard & Poor's 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Dreman High Return Equity VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	100%	98%
Cash Equivalents	—	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Financials	30%	30%
Energy	26%	21%
Health Care	16%	16%
Consumer Staples	12%	16%
Industrials	8%	7%
Consumer Discretionary	6%	7%
Telecommunication Services	2%	1%
Information Technology	—	2%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 67. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS Dreman High Return Equity VIP

	Shares	Value ($)
Common Stocks 99.7%		
Consumer Discretionary 5.9%		
Multiline Retail 0.8%		
Macy's, Inc.	260,310	**6,734,220**
Specialty Retail 5.1%		
Borders Group, Inc. (a)	398,600	4,245,090
Lowe's Companies, Inc.	723,100	16,356,522
Staples, Inc.	923,910	21,314,603
		41,916,215
Consumer Staples 12.2%		
Tobacco		
Altria Group, Inc.	991,220	74,916,408
UST, Inc.	483,279	26,483,689
		101,400,097
Energy 25.9%		
Oil, Gas & Consumable Fuels		
Anadarko Petroleum Corp.	512,100	33,639,849
Apache Corp.	255,200	27,444,208
Chevron Corp.	284,100	26,515,053
ConocoPhillips	759,894	67,098,640
Devon Energy Corp.	517,600	46,019,816
EnCana Corp.	3,100	210,676
Occidental Petroleum Corp.	176,000	13,550,240
		214,478,482
Financials 29.5%		
Commercial Banks 9.5%		
KeyCorp.	519,618	12,185,042
PNC Financial Services Group, Inc.	328,794	21,585,326
US Bancorp.	283,900	9,010,986
Wachovia Corp.	949,000	36,090,470
		78,871,824
Diversified Financial Services 5.9%		
Bank of America Corp.	800,819	33,041,792
CIT Group, Inc.	230,800	5,546,124
Citigroup, Inc.	280,700	8,263,808
JPMorgan Chase & Co.	45,500	1,986,075
		48,837,799
Insurance 3.2%		
Chubb Corp.	280,100	15,287,858
Hartford Financial Services Group, Inc.	123,488	10,766,919
		26,054,777
Thrifts & Mortgage Finance 10.9%		
Fannie Mae	888,073	35,505,158
Freddie Mac	795,091	27,088,750
Sovereign Bancorp, Inc.	449,219	5,121,097
Washington Mutual, Inc.	1,681,975	22,891,680
		90,606,685
Health Care 15.9%		
Biotechnology 0.5%		
Amgen, Inc.*	92,100	**4,277,124**
Health Care Providers & Services 7.9%		
Aetna, Inc.	374,900	21,642,977
UnitedHealth Group, Inc.	754,800	43,929,360
		65,572,337
Pharmaceuticals 7.5%		
Eli Lilly & Co.	90,100	4,810,439
Pfizer, Inc.	1,174,400	26,694,112
Wyeth	684,900	30,265,731
		61,770,282
Industrials 7.7%		
Aerospace & Defense 3.2%		
Northrop Grumman Corp.	122,500	9,633,400
United Technologies Corp.	217,500	16,647,450
		26,280,850
Industrial Conglomerates 4.5%		
3M Co.	270,700	22,825,424
General Electric Co.	394,600	14,627,822
		37,453,246
Materials 0.0%		
Chemicals		
Tronox, Inc. "B"	490	**4,239**
Telecommunication Services 2.6%		
Diversified Telecommunication Services		
Verizon Communications, Inc.	500,500	**21,866,845**
Total Common Stocks (Cost $669,186,998)		**826,125,022**
Securities Lending Collateral 0.5%		
Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $4,186,200)	4,186,200	**4,186,200**
Cash Equivalents 0.1%		
Cash Management QP Trust, 4.67% (b) (Cost $502,942)	502,942	**502,942**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $673,876,140)†	100.3	**830,814,164**
Other Assets and Liabilities, Net	(0.3)	**(2,282,279)**
Net Assets	100.0	**828,531,885**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $676,886,837. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $153,927,327. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $234,668,131 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $80,740,804.*

(a) *All or a portion of these securities were on loan. The value of all securities loaned at December 31, 2007 amounted to $3,812,700 which is 0.5% of net assets.*

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

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

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $669,186,998) — including $3,812,700 of securities loaned	$ 826,125,022
Investment in Daily Assets Fund Institutional (cost $4,186,200)*	4,186,200
Investment in Cash Management QP Trust (cost $502,942)	502,942
Total investments at value (cost $673,876,140)	830,814,164
Cash	1,893,627
Dividends receivable	1,279,839
Receivable for investments sold	999,213
Receivable for Portfolio shares sold	471,934
Interest receivable	3,691
Due from Advisor	41,706
Other assets	18,507
Total assets	835,522,681
Liabilities	
Payable upon return of securities loaned	4,186,200
Payable for Portfolio shares redeemed	423,699
Payable for investments purchased	1,634,372
Accrued management fee	507,819
Other accrued expenses and payables	238,706
Total liabilities	6,990,796
Net assets, at value	**$ 828,531,885**
Net Assets Consist of	
Undistributed net investment income	19,200,356
Net unrealized appreciation (depreciation) on investments	156,938,024
Accumulated net realized gain (loss)	119,331,501
Paid-in capital	533,062,004
Net assets, at value	**$ 828,531,885**
Class A	
Net Asset Value, offering and redemption price per share ($791,756,263 ÷ 54,976,574 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 14.40**
Class B	
Net Asset Value, offering and redemption price per share ($36,775,622 ÷ 2,551,709 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 14.41**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $12,012)	$ 27,174,825
Interest — Cash Management QP Trust	450,389
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	12,478
Total Income	27,637,692
Expenses:	
Management fee	7,381,802
Custodian and accounting fees	174,876
Distribution service fee (Class B)	224,891
Services to shareholders	1,781
Record keeping fees (Class B)	114,757
Professional fees	88,519
Trustees' fees and expenses	52,652
Reports to shareholders	139,376
Other	74,415
Total expenses before expense reductions	8,253,069
Expense reductions	(35,804)
Total expenses after expense reductions	8,217,265
Net investment income (loss)	**19,420,427**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	121,656,723
Futures	1,189,686
	122,846,409
Change in net unrealized appreciation (depreciation) on:	
Investments	(150,183,329)
Futures	(88,602)
	(150,271,931)
Net gain (loss)	**(27,425,522)**
Net increase (decrease) in net assets resulting from operations	**$ (8,005,095)**

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 2007	2006
Operations:		
Net investment income (loss)	$ 19,420,427	$ 17,995,718
Net realized gain (loss)	122,846,409	58,924,813
Change in net unrealized appreciation (depreciation)	(150,271,931)	98,885,982
Net increase (decrease) in net assets resulting from operations	(8,005,095)	175,806,513
Distributions to shareholders from:		
Net investment income:		
Class A	(13,677,685)	(16,100,036)
Class B	(1,939,768)	(1,938,310)
Net realized gains:		
Class A	(7,925,978)	(37,221,919)
Class B	(1,537,591)	(7,173,691)
Total distributions	(25,081,022)	(62,433,956)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	30,297,612	40,524,596
Net assets acquired in tax-free reorganization	—	137,231,257
Reinvestment of distributions	21,603,663	53,321,955
Cost of shares redeemed	(218,373,492)	(119,759,898)
Net increase (decrease) in net assets from Class A share transactions	(166,472,217)	111,317,910
Class B		
Proceeds from shares sold	4,409,581	53,270,899
Net assets acquired in tax-free reorganization	—	47,215,059
Reinvestment of distributions	3,477,359	9,112,001
Cost of shares redeemed	(163,138,034)	(71,564,607)
Net increase (decrease) in net assets from Class B share transactions	(155,251,094)	38,033,352
Increase (decrease) in net assets	(354,809,428)	262,723,819
Net assets at beginning of period	1,183,341,313	920,617,494
Net assets at end of period (including undistributed net investment income of $19,200,356 and $15,397,382, respectively)	**$ 828,531,885**	**$ 1,183,341,313**

Other Information		
Class A		
Shares outstanding at beginning of period	66,083,197	58,564,793
Shares sold	2,028,711	2,833,575
Shares issued in tax-free reorganization	—	9,458,080
Shares issued to shareholders in reinvestment of distributions	1,492,997	3,653,359
Shares redeemed	(14,628,331)	(8,426,610)
Net increase (decrease) in Class A shares	(11,106,623)	7,518,404
Shares outstanding at end of period	**54,976,574**	**66,083,197**
Class B		
Shares outstanding at beginning of period	12,713,676	10,109,241
Shares sold	292,792	3,689,964
Shares issued in tax-free reorganization	—	3,256,256
Shares issued to shareholders in reinvestment of distributions	239,488	620,552
Shares redeemed	(10,694,247)	(4,962,337)
Net increase (decrease) in Class B shares	(10,161,967)	2,604,435
Shares outstanding at end of period	**2,551,709**	**12,713,676**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$15.02**	**$13.41**	**$12.65**	**$11.29**	**$ 8.76**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.29	.27	.24	.23	.20
Net realized and unrealized gain (loss)	(.56)	2.21	.75	1.32	2.53
Total from investment operations	(.27)	2.48	.99	1.55	2.73
Less distributions from:					
Net investment income	(.22)	(.28)	(.23)	(.19)	(.20)
Net realized gains	(.13)	(.59)	—	—	—
Total distributions	(.35)	(.87)	(.23)	(.19)	(.20)
Net asset value, end of period	**$14.40**	**$15.02**	**$13.41**	**$12.65**	**$11.29**
Total Return (%)	(1.86)	18.74	7.92	13.95	32.04
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	792	992	785	747	672
Ratio of expenses (%)	.78	.77	.78	.78	.79
Ratio of net investment income (%)	1.94	1.87	1.84	1.96	2.14
Portfolio turnover rate (%)	27	20	10	9	18

a *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$15.02**	**$13.39**	**$12.63**	**$11.27**	**$ 8.75**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.24	.22	.19	.18	.16
Net realized and unrealized gain (loss)	(.56)	2.19	.75	1.33	2.53
Total from investment operations	(.32)	2.41	.94	1.51	2.69
Less distributions from:					
Net investment income	(.16)	(.19)	(.18)	(.15)	(.17)
Net realized gains	(.13)	(.59)	—	—	—
Total distributions	(.29)	(.78)	(.18)	(.15)	(.17)
Net asset value, end of period	**$14.41**	**$15.02**	**$13.39**	**$12.63**	**$11.27**
Total Return (%)	(2.19)[b]	18.21[b]	7.51	13.53	31.60
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	37	191	135	117	66
Ratio of expenses before expense reduction (%)	1.15	1.16	1.17	1.16	1.18
Ratio of expenses after expense reduction (%)	1.13	1.16	1.17	1.16	1.18
Ratio of net investment income (%)	1.59	1.48	1.45	1.58	1.75
Portfolio turnover rate (%)	27	20	10	9	18

a *Based on average shares outstanding during the period.*
b *Total return would have been lower had certain expenses not been reduced.*

Performance Summary

December 31, 2007

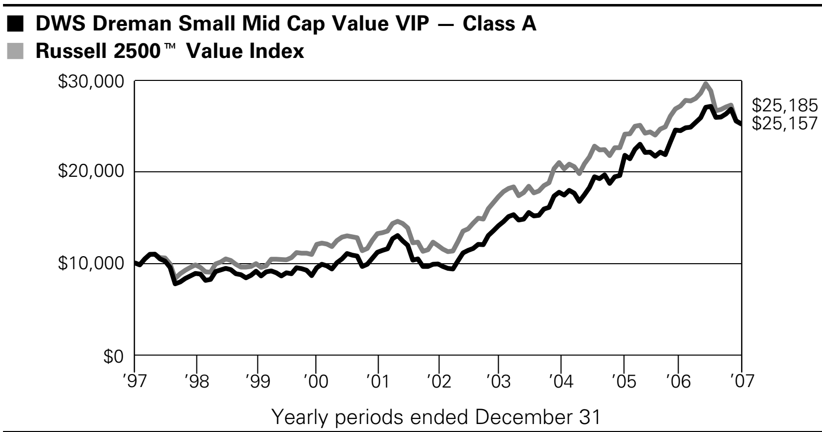
DWS Dreman Small Mid Cap Value VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .77% and 1.15% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

This Portfolio is subject to stock market risk. Stocks of small and medium-sized 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. Small and mid-cap company stocks tend to experience steeper price fluctuations — down as well as up — than stocks of larger companies. Small and mid-cap company stocks are typically less liquid than large company stocks. 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 this product's investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS Dreman Small Mid Cap Value VIP



The Russell 2500 ™ Value Index is an unmanaged Index of those securities in the Russell 3000® Index with a lower price-to-book and lower forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Dreman Small Mid Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,306	$14,209	$25,455	$25,185
	Average annual total return	3.06%	12.42%	20.55%	9.68%
Russell 2500 Value Index	Growth of $10,000	$9,273	$12,006	$21,155	$25,157
	Average annual total return	–7.27%	6.28%	16.17%	9.66%

DWS Dreman Small Mid Cap Value VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,267	$14,043	$24,968	$20,987
	Average annual total return	2.67%	11.98%	20.08%	14.43%
Russell 2500 Value Index	Growth of $10,000	$9,273	$12,006	$21,155	$18,207
	Average annual total return	–7.27%	6.28%	16.17%	11.51%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Dreman Small Mid Cap Value VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,030.60	$1,026.70
Expenses Paid per $1,000*	$ 3.89	$ 5.82
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,021.37	$1,019.46
Expenses Paid per $1,000*	$ 3.87	$ 5.80

* *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
DWS Variable Series II — DWS Dreman Small Mid Cap Value VIP	.76%	1.14%

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

These tables do not 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.

Management Summary

December 31, 2007

DWS Dreman Small Mid Cap Value VIP

Except for a period of weakness in late February and early March, equity markets were quite strong during the first half of 2007. By the end of May, most indices were at or near their all-time highs, and positive trends continued through mid-July before drifting lower in the late summer. A rally in September was sparked in part by the first of the US Federal Reserve Board's (the Fed's) three interest rate reductions. Volatility returned in the fourth quarter, as markets responded to further bad news about the potential impact of the subprime mortgage crisis. For the full year, the Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, returned 5.14%.

The Dreman Small Mid Cap Value VIP Portfolio (Class A shares, unadjusted for contract charges) returned 3.06% for the year, outperforming its benchmark, the Russell 2500® Value Index, which had a return of –7.27%. An overweight in energy and an underweight in financials, as well as stock selection in both of these sectors contributed to performance.[1] Holdings in the energy sector that contributed significantly include Uranium Resources, Inc. and Atwood Oceanics, Inc. Other positives were Central European Distribution Corp.* and General Cable Corp.

The biggest detractor from performance relative to the benchmark was an underweight in the utilities sector. Other positions that detracted from performance include Sterling Financial Corp., a bank holding company with significant participation in the mortgage business, and retailer The Men's Wearhouse, Inc.

David N. Dreman	E. Clifton Hoover, Jr. and Mark Roach
Lead Portfolio Manager	*Portfolio Managers,* Dreman Value Management, L.L.C., Subadvisor to the Portfolio

Risk Considerations

This Portfolio is subject to stock market risk. Stocks of small and medium-sized 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. Small and mid-cap company stocks tend to experience steeper price fluctuations — down as well as up — than stocks of larger companies. Small and mid-cap company stocks are typically less liquid than large company stocks. 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 this product's investments and risk profile.

The Russell 3000 Index measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

The Russell 2500 Value Index is an unmanaged Index of those securities in the Russell 3000 Index with a lower price-to-book and lower forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

* *As of December 31, 2007, the position was not held.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Dreman Small Mid Cap Value VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	97%	95%
Cash Equivalents	3%	4%
Closed-End Investment Company	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Financials	25%	22%
Industrials	20%	26%
Energy	12%	10%
Consumer Staples	12%	3%
Health Care	8%	9%
Information Technology	7%	11%
Consumer Discretionary	7%	5%
Materials	4%	8%
Utilities	4%	5%
Telecommunications Services	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 75. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS Dreman Small Mid Cap Value VIP

	Shares	Value ($)
Common Stocks 96.5%		
Consumer Discretionary 6.2%		
Diversified Consumer Services 1.0%		
Regis Corp. (a)	181,650	**5,078,934**
Household Durables 1.1%		
Leggett & Platt, Inc. (a)	314,050	**5,477,032**
Media 0.7%		
Idearc, Inc.	198,300	**3,482,148**
Specialty Retail 1.8%		
Penske Automotive Group, Inc. (a)	252,800	4,413,888
The Men's Wearhouse, Inc. (a)	177,350	4,784,903
		9,198,791
Textiles, Apparel & Luxury Goods 1.6%		
Hanesbrands, Inc.*	296,700	**8,061,339**
Consumer Staples 11.3%		
Food & Staples Retailing 2.2%		
Ruddick Corp. (a)	273,050	9,466,644
Weis Markets, Inc. (a)	38,350	1,531,699
		10,998,343
Food Products 7.3%		
Del Monte Foods Co. (a)	756,750	7,158,855
Hormel Foods Corp.	159,800	6,468,704
Pilgrim's Pride Corp. (a)	220,000	6,369,000
Ralcorp Holdings, Inc.*	138,150	8,398,138
The J.M. Smucker Co.	159,200	8,189,248
		36,583,945
Tobacco 1.8%		
Vector Group Ltd. (a)	444,686	**8,920,401**
Energy 11.3%		
Energy Equipment & Services 6.0%		
Atwood Oceanics, Inc.* (a)	153,200	15,356,768
Key Energy Services, Inc.*	423,450	6,093,446
Superior Energy Services, Inc.*	260,250	8,957,805
		30,408,019
Oil, Gas & Consumable Fuels 5.3%		
Alon USA Energy, Inc.	189,400	5,147,892
Cimarex Energy Co.	196,600	8,361,398
Pinnacle Gas Resources, Inc. 144A*	241,000	1,103,780
St. Mary Land & Exploration Co.	173,650	6,704,626
Uranium Resources, Inc.*	413,383	5,159,020
		26,476,716
Financials 24.1%		
Capital Markets 2.3%		
FBR Capital Markets Corp. 144A*	95,600	915,848
Waddell & Reed Financial, Inc. "A"	294,750	10,637,528
		11,553,376
Commercial Banks 5.3%		
Boston Private Financial Holdings, Inc. (a)	261,800	7,089,544
Huntington Bancshares, Inc. (a)	386,600	5,706,216
Sterling Financial Corp. (a)	229,723	3,857,049
UCBH Holdings, Inc. (a)	402,950	5,705,772
Wachovia Corp.	107,299	4,080,581
		26,439,162
Diversified Financial Services 0.9%		
CIT Group, Inc.	182,300	4,380,669
CMET Finance Holdings, Inc. 144A*	7,200	86,400
		4,467,069
Insurance 12.1%		
Arch Capital Group Ltd.*	117,200	8,245,020
Argo Group International Holdings Ltd.* (a)	155,588	6,554,922
Endurance Specialty Holdings Ltd. (a)	222,350	9,278,666
Hanover Insurance Group, Inc. (a)	158,000	7,236,400
HCC Insurance Holdings, Inc.	238,450	6,838,746
IPC Holdings Ltd. (a)	257,700	7,439,799
Platinum Underwriters Holdings Ltd. (a)	250,750	8,916,670
Protective Life Corp.	155,100	6,362,202
		60,872,425
Real Estate Investment Trusts 3.5%		
American Financial Realty Trust (REIT) (a)	632,400	5,071,848
Hospitality Properties Trust (REIT) (a)	165,700	5,338,854
Ventas, Inc. (REIT)	163,300	7,389,325
		17,800,027
Health Care 7.8%		
Health Care Equipment & Supplies 5.0%		
Beckman Coulter, Inc.	119,600	8,706,880
Hillenbrand Industries, Inc.	133,250	7,426,022
Kinetic Concepts, Inc.*	168,700	9,035,572
		25,168,474
Health Care Providers & Services 2.8%		
Healthspring, Inc.*	390,200	7,433,310
Lincare Holdings, Inc.*	192,900	6,782,364
		14,215,674
Industrials 19.6%		
Aerospace & Defense 5.6%		
Alliant Techsystems, Inc.* (a)	93,800	10,670,688
Curtiss-Wright Corp.	198,300	9,954,660
DRS Technologies, Inc. (a)	139,550	7,573,378
		28,198,726
Commercial Services & Supplies 2.0%		
HNI Corp.	162,900	5,711,274
Kelly Services, Inc. "A"	244,850	4,568,901
		10,280,175
Construction & Engineering 1.0%		
Perini Corp.*	120,800	**5,003,536**
Electrical Equipment 3.9%		
General Cable Corp.*	79,600	5,833,088
Hubbell, Inc. "B"	126,900	6,548,040
Regal-Beloit Corp. (a)	154,800	6,958,260
		19,339,388

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

	Shares	Value ($)
Industrial Conglomerates 1.4%		
Walter Industries, Inc. (a)	197,000	**7,078,210**
Machinery 4.7%		
Barnes Group, Inc. (a)	354,350	11,831,747
Kennametal, Inc. (a)	196,000	7,420,560
Mueller Water Products, Inc. "A" (a)	437,150	4,161,668
		23,413,975
Trading Companies & Distributors 1.0%		
WESCO International, Inc.*	125,000	**4,955,000**
Information Technology 6.5%		
Communications Equipment 3.0%		
Arris Group, Inc.*	426,650	4,257,967
CommScope, Inc.*	219,200	10,786,832
		15,044,799
Electronic Equipment & Instruments 1.8%		
Anixter International, Inc.* (a)	140,400	**8,742,708**
Software 1.7%		
Jack Henry & Associates, Inc. (a)	354,250	**8,622,445**
Materials 4.0%		
Chemicals 1.4%		
Hercules, Inc.	359,950	**6,965,033**
Metals & Mining 2.6%		
IAMGOLD Corp.	758,800	6,146,280
RTI International Metals, Inc.* (a)	100,150	6,903,339
		13,049,619
Telecommunication Services 1.4%		
Diversified Telecommunication Services		
Windstream Corp.	526,000	**6,848,520**
Utilities 4.3%		
Electric Utilities 2.7%		
ALLETE, Inc.	161,250	6,382,275
IDACORP, Inc. (a)	207,250	7,299,345
		13,681,620
Independent Power Producers & Energy Traders 0.1%		
Dynegy, Inc. "A"*	11,529	82,317
Mirant Corp.*	8,069	314,530
		396,847
Multi-Utilities 1.5%		
Integrys Energy Group, Inc. (a)	142,800	**7,381,332**
Total Common Stocks (Cost $470,781,768)		**484,203,808**

Securities Lending Collateral 12.3%

Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $61,979,470)	61,979,470	**61,979,470**

Cash Equivalents 2.6%

Cash Management QP Trust, 4.67% (b) (Cost $13,162,414)	13,162,414	**13,162,414**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $545,923,652)†	111.4	**559,345,692**
Other Assets and Liabilities, Net	(11.4)	**(57,446,777)**
Net Assets	100.0	**501,898,915**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $545,923,652. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $13,422,040. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $69,893,017 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $56,470,977.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $58,989,969 which is 11.8% of net assets.*

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

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

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

REIT: Real Estate Investment Trust

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets		
Investments:		
Investments in securities, at value (cost $470,781,768 — including $58,973,119 of securities loaned)	$	484,203,808
Investment in Daily Assets Fund Institutional (cost $61,979,470)*		61,979,470
Investment in Cash Management QP Trust (cost $13,162,414)		13,162,414
Total investments, at value (cost $545,923,652)		559,345,692
Cash		75
Receivable for investments sold		4,342,003
Dividends receivable		647,829
Interest receivable		135,695
Receivable for Portfolio shares sold		30,844
Other assets		11,819
Total assets		564,513,957
Liabilities		
Payable upon return of securities loaned		61,979,470
Payable for Portfolio shares redeemed		142,395
Accrued management fee		339,291
Other accrued expenses and payables		153,886
Total liabilities		62,615,042
Net assets, at value	**$**	**501,898,915**
Net Assets Consist of:		
Undistributed net investment income		6,809,899
Net unrealized appreciation (depreciation) on: Investments		13,422,040
Foreign currency related transactions		452
Accumulated net realized gain (loss)		169,437,719
Paid-in capital		312,228,805
Net assets, at value	**$**	**501,898,915**
Class A		
Net Asset Value, offering and redemption price per share ($468,370,231 ÷ 23,283,418 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**20.12**
Class B		
Net Asset Value, offering and redemption price per share ($33,528,684 ÷ 1,669,556 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**20.08**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $7,225)	$	7,505,239
Interest — Cash Management QP Trust		1,787,793
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		469,274
Total Income		9,762,306
Expenses:		
Management fee		4,418,373
Custodian fee		32,476
Distribution and service fee (Class B)		129,482
Record keeping fees (Class B)		64,766
Services to shareholders		1,722
Professional fees		80,060
Trustees' fees and expenses		39,814
Reports to shareholders		74,880
Other		31,183
Total expenses before expense reductions		4,872,756
Expense reductions		(9,077)
Total expenses after expense reductions		4,863,679
Net investment income (loss)		**4,898,627**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		173,994,914
Change in net unrealized appreciation (depreciation) on: Investments		(153,504,376)
Foreign currency		498
		(153,503,878)
Net gain (loss)		**20,491,036**
Net increase (decrease) in net assets resulting from operations	**$**	**25,389,663**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 4,898,627	$ 4,078,886
Net realized gain (loss)	173,994,914	91,462,667
Change in net unrealized appreciation (depreciation)	(153,503,878)	42,123,164
Net increase (decrease) in net assets resulting from operations	25,389,663	137,664,717
Distributions to shareholders from:		
Net investment income:		
Class A	(5,615,367)	(4,273,776)
Class B	(521,975)	(345,890)
Distributions to shareholders from:		
Net realized gains:		
Class A	(79,369,510)	(41,452,231)
Class B	(12,524,743)	(7,012,173)
Total distributions	(98,031,595)	(53,084,070)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	42,602,597	35,405,526
Reinvestment of distributions	84,984,877	45,726,007
Cost of shares redeemed	(156,265,470)	(84,469,976)
Net increase (decrease) in net assets from Class A share transactions	(28,677,996)	(3,338,443)
Class B		
Proceeds from shares sold	12,637,109	5,496,550
Reinvestment of distributions	13,046,718	7,358,063
Cost of shares redeemed	(74,159,545)	(17,725,542)
Net increase (decrease) in net assets from Class B share transactions	(48,475,718)	(4,870,929)
Increase (decrease) in net assets	(149,795,646)	76,371,275
Net assets at beginning of period	651,694,561	575,323,286
Net assets at end of period (including undistributed net investment income of $6,809,899 and $3,855,010, respectively)	**$ 501,898,915**	**$ 651,694,561**

Other Information		
Class A		
Shares outstanding at beginning of period	24,500,577	24,658,095
Shares sold	1,968,230	1,671,537
Shares issued to shareholders in reinvestment of distributions	4,200,933	2,176,393
Shares redeemed	(7,386,322)	(4,005,448)
Net increase (decrease) in Class A shares	(1,217,159)	(157,518)
Shares outstanding at end of period	**23,283,418**	**24,500,577**
Class B		
Shares outstanding at beginning of period	3,927,983	4,153,458
Shares sold	603,769	258,137
Shares issued to shareholders in reinvestment of distributions	644,282	349,884
Shares redeemed	(3,506,478)	(833,496)
Net increase (decrease) in Class B shares	(2,258,427)	(225,475)
Shares outstanding at end of period	**1,669,556**	**3,927,983**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$22.93**	**$19.98**	**$20.05**	**$16.06**	**$11.66**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.18	.15	.19	.17	.19
Net realized and unrealized gain (loss)	.54	4.69	1.67	3.98	4.55
Total from investment operations	.72	4.84	1.86	4.15	4.74
Less distributions from:					
Net investment income	(.23)	(.18)	(.15)	(.16)	(.15)
Net realized gains	(3.30)	(1.71)	(1.78)	—	(.19)
Total distributions	(3.53)	(1.89)	(1.93)	(.16)	(.34)
Net asset value, end of period	**$20.12**	**$22.93**	**$19.98**	**$20.05**	**$16.06**
Total Return (%)	3.06	25.06	10.25	26.03	42.15
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	468	562	493	467	354
Ratio of expenses (%)	.78	.79	.79	.79	.80
Ratio of net investment income (%)	.85	.71	.96	.96	1.46
Portfolio turnover rate (%)	110	52	61	73	71

[a] *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$22.88**	**$19.93**	**$20.01**	**$16.03**	**$11.65**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.10	.07	.11	.10	.13
Net realized and unrealized gain (loss)	.54	4.67	1.66	3.97	4.56
Total from investment operations	.64	4.74	1.77	4.07	4.69
Less distributions from:					
Net investment income	(.14)	(.08)	(.07)	(.09)	(.12)
Net realized gains	(3.30)	(1.71)	(1.78)	—	(.19)
Total distributions	(3.44)	(1.79)	(1.85)	(.09)	(.31)
Net asset value, end of period	**$20.08**	**$22.88**	**$19.93**	**$20.01**	**$16.03**
Total Return (%)	2.67	24.59	9.78	25.52	41.65
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	34	90	83	71	32
Ratio of expenses (%)	1.16	1.17	1.19	1.16	1.19
Ratio of net investment income (%)	.47	.33	.56	.59	1.07
Portfolio turnover rate (%)	110	52	61	73	71

[a] *Based on average shares outstanding during the period.*

Performance Summary

DWS Global Thematic VIP

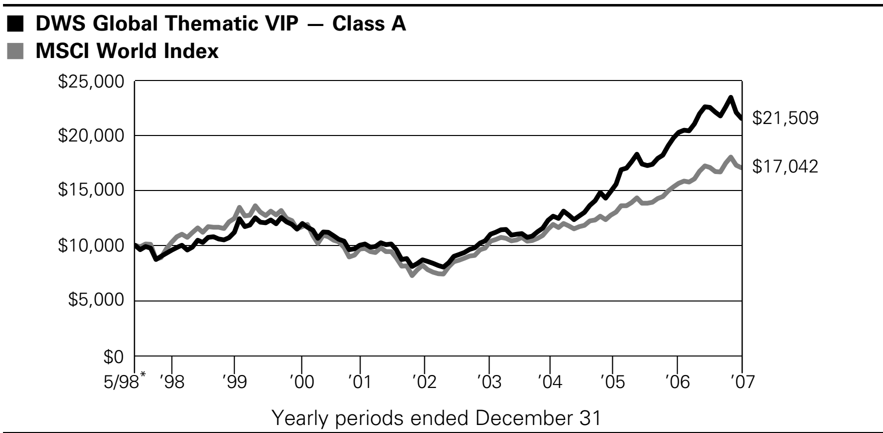
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 1.38% and 1.76% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the year ended December 31, 2007.

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.

Portfolio returns shown for all periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Global Thematic VIP from 5/5/1998 to 12/31/2007



The Morgan Stanley Capital International (MSCI) World Index is an unmanaged, capitalization weighted measure of global stock markets including the US, Canada, Europe, Australia and the Far East. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates.

Index returns assume reinvestment of dividends and, unlike Portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Global Thematic VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$10,629	$17,007	$25,204	$21,509
	Average annual total return	6.29%	19.36%	20.31%	8.25%
MSCI World Index	Growth of $10,000	$10,904	$14,333	$21,887	$17,042
	Average annual total return	9.04%	12.75%	16.96%	5.67%

DWS Global Thematic VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$10,584	$16,810	$24,785	$22,246
	Average annual total return	5.84%	18.90%	19.91%	15.65%
MSCI World Index	Growth of $10,000	$10,904	$14,333	$21,887	$19,230
	Average annual total return	9.04%	12.75%	16.96%	12.62%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 5, 1998. Index returns began on April 30, 1998.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Global Thematic VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$ 954.90	$ 952.60
Expenses Paid per $1,000*	$ 5.42	$ 7.28

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,019.66	$1,017.74
Expenses Paid per $1,000*	$ 5.60	$ 7.53

* *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**
DWS Variable Series II — DWS Global Thematic VIP	1.10%	1.48%

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

These tables do not 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.

DWS Global Thematic VIP

Despite second half market volatility, the MSCI World Index — the Portfolio's benchmark — returned 9.04% during 2007. The Class A shares of the Portfolio (unadjusted for contract charges) returned 6.29%, underperforming the index.

To review, we look for long-term themes in the global economy, then we use a combination of quantitative analysis and intensive fundamental research to identify companies that we believe can benefit as these themes unfold. The theme Public/Private Partnerships, which focuses on companies that partner with governments and regulators to provide important public services, made the largest contribution to performance behind a surge in OMX AB*, the Nordic region's largest stock exchange. Performance also was helped by successful stock selection in the two weakest areas of the market — the financial and consumer discretionary sectors. The Portfolio's leading individual contributors were Gazprom, Archer Daniels Midland Co., and ABN AMRO Holding N.V.*, while the most significant detractors were Office Depot, Inc., the US-based convenience store chain Pantry, Inc., and the Japanese stock Orix Corp. A below-benchmark weighting in the strong-performing energy sector also hurt relative performance.

Equities' poor second half performance has created opportunities to purchase undervalued stocks in industries that have little or no connection to the troubled US subprime market. Our global thematic strategy allows us to invest in companies we believe are undervalued as a result of market sell-offs.

Oliver Kratz

Lead Portfolio Manager
Deutsche Investment Management Americas Inc.

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 Morgan Stanley Capital International (MSCI) World Index is an unmanaged, capitalization-weighted measure of global stock markets around the world, including North America, Europe, Australia and the Far East. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates. Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

* *As of December 31, 2007, the positions were not held.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Global Thematic VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	92%	93%
Cash Equivalents	4%	2%
Exchange Traded Funds	2%	3%
Preferred Stocks	2%	2%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/07**	**12/31/06**
Financials	24%	23%
Industrials	21%	16%
Consumer Discretionary	13%	9%
Health Care	11%	10%
Information Technology	11%	15%
Consumer Staples	8%	5%
Materials	5%	7%
Energy	4%	11%
Telecommunication Services	3%	3%
Utilities	—	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/07**	**12/31/06**
Continental Europe	39%	31%
United States	28%	28%
Asia (excluding Japan)	12%	14%
Latin America	7%	6%
Japan	6%	8%
United Kingdom	3%	7%
Middle East	2%	1%
Africa	2%	2%
Canada	1%	1%
Bermuda	—	2%
	100%	100%

Asset allocation, sector and geographical diversifications are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 84. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

DWS Global Thematic VIP

	Shares	Value ($)
Common Stocks 92.6%		
Argentina 0.5%		
Banco Macro SA (ADR) (Cost $1,058,404)	31,200	**771,888**
Australia 0.5%		
Australian Wealth Management Ltd. (Cost $766,162)	370,220	**815,449**
Austria 5.3%		
Erste Bank der oesterreichischen Sparkassen AG	14,600	1,037,693
Flughafen Wien AG	12,400	1,432,341
Immoeast AG*	98,389	1,050,805
Wienerberger AG	90,037	4,973,645
(Cost $8,706,011)		**8,494,484**
Belgium 0.8%		
Fortis (Cost $1,658,477)	51,400	**1,335,743**
Brazil 2.4%		
Diagnosticos da America SA	36,100	741,008
Marfrig Frigorificos e Comercio de Alimentos SA*	90,500	771,066
Santos Brasil Participacoes SA (Units)*	126,000	1,875,842
SLC Agricola SA*	55,400	512,807
(Cost $3,439,759)		**3,900,723**
Canada 0.5%		
Coalcorp Mining, Inc.*	70,735	152,658
Nexen, Inc.	22,200	722,042
(Cost $946,334)		**874,700**
China 0.4%		
Sunshine Holdings Ltd. (Cost $657,117)	2,935,000	**613,843**
Denmark 1.5%		
A P Moller-Maersk AS “B” (Cost $3,113,091)	231	**2,448,063**
Finland 0.3%		
Metso Corp. (Cost $515,263)	9,000	**485,719**
France 2.4%		
PPR	6,228	995,724
Sanofi-Aventis	17,968	1,642,284
Vallourec SA	4,507	1,213,304
(Cost $3,421,441)		**3,851,312**
Germany 9.0%		
Air Berlin PLC* (a)	102,890	1,827,107
Axel Springer AG	10,945	1,563,662
Bilfinger Berger AG	16,900	1,282,338
Continental AG	13,740	1,781,779
Hamburger Hafen- und Logistik AG*	13,900	1,239,672
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	10,095	1,951,476
Siemens AG (Registered)	8,677	1,362,196
Symrise AG*	94,031	2,622,550
TUI AG*	31,314	869,663
(Cost $14,558,748)		**14,500,443**

	Shares	Value ($)
Hong Kong 3.2%		
China Water Affairs Group Ltd.*	1,093,700	673,765
GOME Electrical Appliances Holdings Ltd.	635,000	1,606,075
Hongkong & Shanghai Hotels Ltd.	377,099	660,306
Hutchison Whampoa Ltd.	191,000	2,149,366
(Cost $4,495,730)		**5,089,512**
Hungary 0.5%		
OTP Bank Nyrt. (Cost $765,118)	15,100	**759,762**
Indonesia 0.7%		
PT Telekomunikasi Indonesia (ADR) (Cost $1,149,589)	25,000	**1,050,250**
Israel 0.7%		
NICE Systems Ltd. (ADR)* (Cost $914,789)	33,200	**1,139,424**
Italy 2.9%		
Gemina SpA	705,717	1,232,662
Mediolanum SpA (a)	248,800	1,970,047
UniCredito Italiano SpA	168,800	1,404,830
(Cost $4,642,122)		**4,607,539**
Japan 5.2%		
Credit Saison Co., Ltd.	33,700	919,559
FANUC Ltd.	9,700	946,299
Mitsubishi Heavy Industries Ltd.	257,000	1,099,826
Mitsui Fudosan Co., Ltd.	51,000	1,102,209
Mizuho Financial Group, Inc.	154	730,583
ORIX Corp.	4,100	685,626
Ryobi Ltd.	123,000	660,050
Seven & I Holdings Co., Ltd.	45,000	1,308,621
Sony Financial Holdings, Inc.*	237	900,768
(Cost $7,946,362)		**8,353,541**
Kazakhstan 0.6%		
Kazakhstan Kagazy PLC (GDR) 144A* (Cost $911,000)	182,200	**956,550**
Korea 3.9%		
CDNetworks Co., Ltd.*	31,221	531,066
Daesang Corp.*	33,996	441,346
Kangwon Land, Inc.	37,400	976,671
Kookmin Bank	15,500	1,139,264
Kookmin Bank (ADR) (a)	23,200	1,701,024
Samsung Electronics Co., Ltd.	2,621	1,540,522
(Cost $6,357,435)		**6,329,893**
Luxembourg 0.7%		
Tenaris SA (ADR) (Cost $1,256,567)	25,500	**1,140,615**
Malaysia 0.9%		
AMMB Holdings Bhd.	785,600	899,278
Steppe Cement Ltd.*	114,601	627,293
(Cost $1,231,744)		**1,526,571**
Mexico 2.8%		
Cemex SAB de CV (ADR)*	34,900	902,165
Empresas ICA SAB de CV (ADR)*	33,350	880,440
Grupo Televisa SA (ADR)	114,400	2,719,288
(Cost $4,705,134)		**4,501,893**

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

	Shares	Value ($)
Netherlands 2.3%		
QIAGEN NV* (a)	102,900	2,209,930
TNT NV	37,400	1,556,310
(Cost $3,337,835)		**3,766,240**
Norway 0.5%		
Cermaq ASA (Cost $992,139)	54,200	**748,105**
Poland 0.8%		
Telekomunikacja Polska SA* (Cost $1,204,939)	143,900	**1,311,117**
Portugal 0.5%		
Banco BPI SA (Registered) (Cost $796,053)	101,700	**790,139**
Russia 3.3%		
Gazprom (ADR) (b)	7,350	416,745
Gazprom (ADR) (b)	45,432	2,558,359
Novorossiysk Sea Trade Port (GDR) 144A*	37,200	744,000
Open Investments (GDR) (REG S)*	31,400	1,216,750
Uralkali (GDR) 144A*	8,300	309,175
(Cost $4,358,134)		**5,245,029**
Singapore 0.4%		
CapitaRetail China Trust (REIT)*	233,000	345,729
Food Empire Holdings Ltd.	699,000	370,106
(Cost $864,084)		**715,835**
South Africa 1.6%		
Gold Fields Ltd.	81,300	1,166,128
Gold Fields Ltd. (ADR)	33,000	468,600
Lewis Group Ltd.	147,000	985,573
(Cost $2,859,631)		**2,620,301**
Sweden 1.3%		
Tele2 AB "B" (Cost $1,903,904)	102,500	**2,038,720**
Switzerland 4.6%		
Credit Suisse Group (Registered)	11,942	718,041
Julius Baer Holding AG (Registered)	19,957	1,622,178
SGS SA (Registered)	1,058	1,246,434
Synthes, Inc.	14,615	1,806,492
UBS AG (Registered) (b)	32,549	1,511,556
UBS AG (Registered) (b)	10,800	496,800
(Cost $7,583,466)		**7,401,501**
Taiwan 1.1%		
Hon Hai Precision Industry Co., Ltd. (Cost $1,946,894)	286,000	**1,766,671**
Thailand 0.3%		
Seamico Securities PCL (Foreign Registered)	2,375,800	238,391
Siam City Bank PCL (Foreign Registered)	670,700	298,664
(Cost $596,455)		**537,055**
Turkey 0.4%		
Turkiye Is Bankasi (Isbank) "C" (Cost $349,789)	110,639	**690,830**
United Arab Emirates 1.5%		
DP World Ltd.*	248,999	296,309
Emaar Properties	538,448	2,184,522
(Cost $2,082,339)		**2,480,831**

	Shares	Value ($)
United Kingdom 2.9%		
AstraZeneca PLC	20,451	878,749
G4S PLC	257,743	1,245,064
GlaxoSmithKline PLC	99,393	2,522,279
(Cost $4,548,107)		**4,646,092**
United States 25.4%		
Advanced Micro Devices, Inc.*	76,050	570,375
Akamai Technologies, Inc.*	41,900	1,449,740
AMR Corp.*	49,400	693,082
Archer-Daniels-Midland Co.	69,500	3,226,885
BMB Munai, Inc.* (a)	34,800	217,500
Caterpillar, Inc.	10,200	740,112
Chiquita Brands International, Inc.*	54,900	1,009,611
Cisco Systems, Inc.*	98,150	2,656,920
Citigroup, Inc.	52,900	1,557,376
Cogent, Inc.*	126,000	1,404,900
Corn Products International, Inc.	33,400	1,227,450
Dean Foods Co.	44,300	1,145,598
Exxon Mobil Corp.	15,300	1,433,457
Harley-Davidson, Inc.	25,700	1,200,447
Johnson & Johnson	41,350	2,758,045
Level 3 Communications, Inc.*	166,700	506,768
Mattel, Inc.	69,900	1,330,896
Merrill Lynch & Co., Inc.	42,500	2,281,400
Microsoft Corp.	34,900	1,242,440
Monster Worldwide, Inc.*	34,200	1,108,080
New York Times Co. "A" (a)	77,400	1,356,822
Office Depot, Inc.*	78,400	1,090,544
Pantry, Inc.*	43,700	1,141,881
Pfizer, Inc.	54,975	1,249,582
Stryker Corp.	15,200	1,135,744
Sun Microsystems, Inc.*	103,950	1,884,613
Symantec Corp.*	102,600	1,655,964
The Blackstone Group LP (Limited Partnership)	36,100	798,893
Wal-Mart Stores, Inc.	18,100	860,293
Wyeth	27,550	1,217,435
Yahoo!, Inc.*	32,600	758,277
(Cost $44,512,276)		**40,911,130**
Total Common Stocks (Cost $151,152,442)		**149,217,513**

Preferred Stocks 2.1%

	Shares	Value ($)
Brazil 1.1%		
Net Servicos de Comunicacao SA* (Cost $2,151,734)	151,300	**1,813,407**
Russia 1.0%		
Sberbank (Cost $1,342,035)	503,922	**1,511,766**
Total Preferred Stocks (Cost $3,493,769)		**3,325,173**

Participatory Note 0.2%

	Shares	Value ($)
United States 0.2%		
Agility Capital, Inc. (issuer Citigroup Global Markets Holdings, Inc.), Expiration Date 3/17/2008 (Cost $499,500)	75,000	**365,850**

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

	Shares	Value ($)
Exchange Traded Funds 2.0%		
Biotech HOLDRs Trust	5,500	889,680
iShares Nasdaq Biotechnology Index Fund (a)	29,225	2,372,485
Total Exchange Traded Funds (Cost $2,994,505)		**3,262,165**
Securities Lending Collateral 6.5%		
Daily Asset Funds Institutional, 5.03% (c) (d) (Cost $10,557,700)	10,557,700	**10,557,700**
Cash Equivalents 3.9%		
Cash Management QP Trust, 4.67% (c) (Cost $6,232,327)	6,232,327	**6,232,327**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $174,930,243)†	107.3	**172,960,728**
Other Assets and Liabilities, Net	(7.3)	**(11,733,362)**
Net Assets	100.0	**161,227,366**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $177,044,367. At December 31, 2007, net unrealized depreciation for all securities based on tax cost was $4,083,639. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $11,493,060 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $15,576,699.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $10,059,412 which is 6.2% of net assets.*

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

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

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

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

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

HOLDRs: Holding Company Depositary Receipts

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, 2007

Assets		
Investments:		
Investments in securities, at value (cost $158,140,216) — including $10,059,412 of securities loaned	$	156,170,701
Investment in Daily Assets Fund Institutional (cost $10,557,700)*		10,557,700
Investment in Cash Management QP Trust (cost $6,232,327)		6,232,327
Total investments, at value (cost $174,930,243)		172,960,728
Foreign currency, at value (cost $884,478)		883,886
Dividends receivable		99,842
Interest receivable		27,265
Receivable for investments sold		61,817
Receivable for Portfolio shares sold		486
Foreign taxes recoverable		53,662
Due from Advisor		1,707
Other assets		3,823
Total assets		174,093,216
Liabilities		
Cash overdraft		46,649
Payable for investments purchased		1,941,855
Payable upon return of securities loaned		10,557,700
Payable for Portfolio shares redeemed		31,497
Accrued management fee		138,822
Other accrued expenses and payables		149,327
Total liabilities		12,865,850
Net assets, at value	**$**	**161,227,366**
Net Assets Consist of		
Undistributed net investment income		1,638,227
Net unrealized appreciation (depreciation) on:		
Investments		(1,969,515)
Foreign currency		3,254
Accumulated net realized gain (loss)		36,969,225
Paid-in capital		124,586,175
Net assets, at value	**$**	**161,227,366**
Class A		
Net Asset Value, offering and redemption price per share ($151,316,138 ÷ 9,660,413 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**15.66**
Class B		
Net Asset Value, offering and redemption price per share ($9,911,228 ÷ 632,933 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**15.66**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $234,690)	$	2,931,250
Interest		5,284
Interest — Cash Management QP Trust		263,974
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		146,502
Total Income		3,347,010
Expenses:		
Management fee		1,732,290
Services to shareholders		546
Custodian and accounting fees		586,182
Distribution and service fee (Class B)		38,519
Record keeping fees (Class B)		18,322
Professional fees		74,447
Trustees' fees and expenses		20,062
Reports to shareholders		26,527
Other		60,873
Total expenses before expense reductions		2,557,768
Expense reductions		(582,485)
Total expenses after expense reductions		1,975,283
Net investment income (loss)		**1,371,727**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments (net of foreign taxes of $71,747)		38,309,236
Foreign currency (net of foreign taxes of $126)		13,279
		38,322,515
Change in net unrealized appreciation (depreciation) on:		
Investments (including deferred foreign tax credit of $72,433)		(28,184,517)
Foreign currency		(273)
		(28,184,790)
Net gain (loss)		**10,137,725**
Net increase (decrease) in net assets resulting from operations	**$**	**11,509,452**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 1,371,727	$ 1,139,734
Net realized gain (loss)	38,322,515	25,502,594
Change in net unrealized appreciation (depreciation)	(28,184,790)	8,974,038
Net increase (decrease) in net assets resulting from operations	11,509,452	35,616,366
Distributions to shareholders from:		
Net investment income:		
Class A	(976,630)	(572,746)
Class B	(67,864)	(42,929)
Net realized gains:		
Class A	(22,498,351)	(7,184,784)
Class B	(3,879,598)	(1,620,965)
Total distributions	(27,422,443)	(9,421,424)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	32,962,118	39,340,554
Reinvestment of distributions	23,474,981	7,757,530
Cost of shares redeemed	(33,544,797)	(11,647,602)
Net increase (decrease) in net assets from Class A share transactions	22,892,302	35,450,482
Class B		
Proceeds from shares sold	5,026,580	5,266,200
Reinvestment of distributions	3,947,462	1,663,894
Cost of shares redeemed	(22,340,318)	(5,607,559)
Net increase (decrease) in net assets from Class B share transactions	(13,366,276)	1,322,535
Increase (decrease) in net assets	(6,386,965)	62,967,959
Net assets at beginning of period	167,614,331	104,646,372
Net assets at end of period (including undistributed net investment income of $1,638,227 and $963,505, respectively)	**$ 161,227,366**	**$ 167,614,331**

Other Information		
Class A		
Shares outstanding at beginning of period	8,197,243	5,887,898
Shares sold	1,983,290	2,556,665
Shares issued to shareholders in reinvestment of distributions	1,533,310	513,064
Shares redeemed	(2,053,430)	(760,384)
Net increase (decrease) in Class A shares	1,463,170	2,309,345
Shares outstanding at end of period	**9,660,413**	**8,197,243**
Class B		
Shares outstanding at beginning of period	1,443,479	1,359,840
Shares sold	302,846	334,421
Shares issued to shareholders in reinvestment of distributions	257,164	109,756
Shares redeemed	(1,370,556)	(360,538)
Net increase (decrease) in Class B shares	(810,546)	83,639
Shares outstanding at end of period	**632,933**	**1,443,479**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$17.39**	**$14.44**	**$11.78**	**$10.39**	**$ 8.08**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.14	.15[c]	.12	.04	.09
Net realized and unrealized gain (loss)	.88	4.02	2.58	1.48	2.25
Total from investment operations	1.02	4.17	2.70	1.52	2.34
Less distributions from:					
Net investment income	(.11)	(.09)	(.04)	(.13)	(.03)
Net realized gains	(2.64)	(1.13)	—	—	—
Total distributions	(2.75)	(1.22)	(.04)	(.13)	(.03)
Net asset value, end of period	**$15.66**	**$17.39**	**$14.44**	**$11.78**	**$10.39**
Total Return (%)[b]	6.29	30.14[c]	22.94	14.76	29.13
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	151	143	85	63	55
Ratio of expenses before expense reductions (%)	1.44	1.38	1.41	1.44	1.48
Ratio of expenses after expense reductions (%)	1.11	1.04	1.28	1.43	1.17
Ratio of net investment income (%)	.82	.92[c]	.98	.38	1.02
Portfolio turnover rate (%)	191	136	95	81	65

[a] *Based on average shares outstanding during the period.*

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

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.004 per share and an increase in the ratio of net investment income of 0.03%. Excluding this non-recurring income, total return would have been 0.02% lower.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$17.38**	**$14.43**	**$11.78**	**$10.38**	**$ 8.06**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.07	.09[c]	.07	.00[d]	.04
Net realized and unrealized gain (loss)	.90	4.02	2.58	1.48	2.29
Total from investment operations	.97	4.11	2.65	1.48	2.33
Less distributions from:					
Net investment income	(.05)	(.03)	—	(.08)	(.01)
Net realized gains	(2.64)	(1.13)	—	—	—
Total distributions	(2.69)	(1.16)	—	(.08)	(.01)
Net asset value, end of period	**$15.66**	**$17.38**	**$14.43**	**$11.78**	**$10.38**
Total Return (%)[b]	5.84	29.65[c]	22.50	14.33	28.96
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	10	25	20	13	6
Ratio of expenses before expense reductions (%)	1.81	1.76	1.79	1.84	1.87
Ratio of expenses after expense reductions (%)	1.47	1.43	1.65	1.83	1.64
Ratio of net investment income (%)	.46	.53[c]	.61	.02	.55
Portfolio turnover rate (%)	191	136	95	81	65

[a] *Based on average shares outstanding during the period.*

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

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.004 per share and an increase in the ratio of net investment income of 0.03%. Excluding this non-recurring income, total return would have been 0.02% lower.*

[d] *Amount is less than $.005 per share.*

DWS Government & Agency Securities VIP

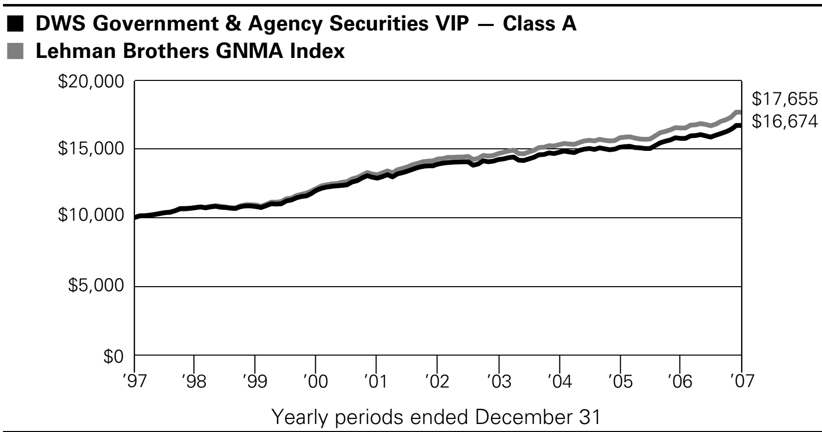
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .67% and 1.07% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. In the current market environment, mortgage-backed securities are experiencing increased volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for all periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Government & Agency Securities VIP



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, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Government & Agency Securities VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,595	$11,320	$12,010	$16,674
	Average annual total return	5.95%	4.22%	3.73%	5.25%
Lehman Brothers GNMA Index	Growth of $10,000	$10,698	$11,549	$12,396	$17,655
	Average annual total return	6.98%	4.92%	4.39%	5.85%

DWS Government & Agency Securities VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,543	$11,183	$11,770	$12,208
	Average annual total return	5.43%	3.80%	3.31%	3.69%
Lehman Brothers GNMA Index	Growth of $10,000	$10,698	$11,549	$12,396	$12,911
	Average annual total return	6.98%	4.92%	4.39%	4.75%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Government & Agency Securities VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,052.70	$1,049.30
Expenses Paid per $1,000*	$ 3.26	$ 5.17
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,022.03	$1,020.16
Expenses Paid per $1,000*	$ 3.21	$ 5.09

* *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**
DWS Variable Series II — DWS Government & Agency Securities VIP	.63%	1.00%

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

These tables do not 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.

DWS Government & Agency Securities VIP

The period began with a yield curve that was slightly inverted between two and 30 years, meaning that short-term rates were actually higher than long-term rates.[1] As the period progressed, market expectations were increasingly for stronger economic growth, and inflationary concerns caused the yield curve to steepen somewhat. The last half of the fiscal year was the most eventful and did the most to determine fixed-income investor returns. In particular, the summer saw extreme volatility occasioned by the subprime mortgage crisis. As investors sought to protect against risks that were difficult to assess, liquidity disappeared in the broader fixed-income markets. Ultimately, this risk aversion caused a period of very high financial market volatility as well as a flight to quality, the principal manifestation of which was increased interest in US Treasury securities. The yield curve steepened significantly and rates fell across all maturities, as bond market participants anticipated US Federal Reserve Board (the Fed) easing of short-term rates. Between September and November, the Fed lowered the benchmark short-term rate by 100 basis points (one basis point equals .01%) to its year-end level of 4.25%.

During the 12-month period ended December 31, 2007, the Portfolio provided a total return of 5.95% (Class A shares, unadjusted for contract charges) compared with the 6.98% return of its benchmark, the Lehman Brothers GNMA Index. The Portfolio's return exceeded the 4.66% average return of the 15 funds in its Lipper category, U.S. Mortgage Funds.

Early in the year, our focus on high-coupon mortgages worked well as prepayments remained low and we were able to earn attractive income. During the latter half of the year, we implemented a shift toward lower coupon mortgages as a defensive measure against a possible rise in prepayments as rates declined. This constrained performance to a degree as the market viewed increased prepayments as less of a threat in a tight credit and refinancing environment. Our modest exposure to conventional mortgages such as those backed by Freddie Mac and Fannie Mae also held back performance as GNMA benefited from the market's strong focus on credit quality.[2] Performance benefited from strategic exposure to TIPS (Treasury Inflation Protected Securities) as Fed easing raised inflation expectations. Going forward, we will continue to monitor the credit and interest rate environment closely as we seek to maintain an attractive dividend for investors.

William Chepolis, CFA and Matthew F. MacDonald

Co-Managers
Deutsche Investment Management Americas Inc.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. In the current market environment, mortgage-backed securities are experiencing increased volatility. 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, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

The Lipper U.S. Mortgage Funds category consists of funds that invest at least 65% of fund assets in mortgages/securities issued or guaranteed as to principal and interest by the U.S. government and certain federal agencies. Category returns assume reinvestment of dividends. It is not possible to invest directly into a Lipper category.

1 *The yield curve is a graph with a left-to-right line that shows how high or low yields are, from the shortest to the longest maturities. Typically (and when the yield curve is characterized as "steep," this is especially true) the line rises from left to right as investors who are willing to tie up their money for a longer period are rewarded with higher yields.*

2 *Credit quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. Rating agencies assign letter designations such as AAA, AA and so forth. The lower the rating, the higher the probability of default.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Government & Agency Securities VIP

Asset Allocation (As a % of Investment Portfolio)	**12/31/07**	**12/31/06**
Agencies Backed by the Full Faith and Credit of the US Government (GNMA)	61%	53%
Agencies Not Backed by the Full Faith and Credit of the US Government (FNMA, FHLMC)	36%	32%
Cash Equivalents	2%	10%
US Treasury Obligations	1%	5%
	100%	100%

Quality	**12/31/07**	**12/31/06**
AAA*	100%	100%

* *Includes cash equivalents*

Interest Rate Sensitivity	**12/31/07**	**12/31/06**
Average Maturity	5.9 years	5.6 years
Average Duration	3.5 years	3.4 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 Portfolio's quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 94. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day 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, 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.

DWS Government & Agency Securities VIP

	Principal Amount ($)	Value ($)
Agencies Backed by the Full Faith and Credit of the US Government 56.6%		
Government National Mortgage Association:		
5.0%, with various maturities from 4/20/2033 until 7/20/2036	30,430,776	29,861,068
5.5%, with various maturities from 10/15/2032 until 11/15/2035	39,580,408	39,852,869
6.0%, with various maturities from 4/15/2013 until 11/15/2037	21,560,827	22,075,163
6.5%, with various maturities from 3/15/2014 until 10/15/2037	18,633,747	19,298,696
7.0%, with various maturities from 10/15/2026 until 7/15/2036	1,803,881	1,891,213
7.5%, with various maturities from 4/15/2026 until 1/15/2037	2,243,412	2,369,845
9.5%, with various maturities from 6/15/2013 until 12/15/2022	53,765	59,589
10.0%, with various maturities from 2/15/2016 until 3/15/2016	18,689	21,208
Total Agencies Backed By the Full Faith and Credit of the US Government (Cost $115,575,141)		**115,429,651**
Agencies Not Backed by the Full Faith and Credit of the US Government 37.3%		
Federal Farm Credit Bank, 4.875%, 12/16/2015	12,000,000	12,415,464
Federal Home Loan Bank, 5.5%, 8/13/2014	13,000,000	14,011,816
Federal Home Loan Mortgage Corp.:		
4.5%, 5/1/2019	54,809	54,049
5.5%, with various maturities from 2/1/2017 until 11/1/2034	15,049,670	15,014,498
5.73%*, 4/1/2037	2,962,055	2,997,937
5.77%*, 10/1/2036	2,816,396	2,854,408
5.872%*, 11/1/2036	1,243,890	1,266,085
5.891%*, 9/1/2036	1,155,715	1,173,603
6.5%, 9/1/2032	150,328	155,418
7.0%, with various maturities from 5/1/2029 until 8/1/2035	1,475,042	1,531,838
7.5%, with various maturities from 1/1/2027 until 5/1/2032	120,197	128,337
8.0%, 11/1/2030	2,164	2,354
8.5%, 7/1/2030	2,738	3,001
Federal National Mortgage Association:		
5.0%, with various maturities from 10/1/2033 until 2/1/2034	10,624,039	10,365,223
5.5%, with various maturities from 2/1/2033 until 6/1/2034	3,548,710	3,550,379
6.0%, 9/1/2035	10,000,000	10,154,688
7.0%, with various maturities from 9/1/2013 until 7/1/2034	470,755	491,712
8.0%, 12/1/2024	12,566	13,626
Total Agencies Not Backed by the Full Faith and Credit of the US Government (Cost $75,647,538)		**76,184,436**
Collateralized Mortgage Obligations 14.5%		
Federal Home Loan Mortgage Corp.:		
"MO", Series 3171, Principal Only, Zero Coupon, 6/15/2036	914,007	678,847
"GZ", Series 2906, 5.0%, 9/15/2034	1,451,840	1,299,182
"FT", Series 3346, 5.378%*, 10/15/2033	2,864,459	2,848,845
Federal National Mortgage Association, "LO", Series 2005-50, Principal Only, Zero Coupon, 6/25/2035	1,112,575	753,298
Government National Mortgage Association:		
"JO", Series 2006-22, Principal Only, Zero Coupon, 4/20/2036	1,086,551	812,192
"PO", Series 2006-25, Principal Only, Zero Coupon, 5/20/2036	904,168	678,424
"OD", Series 2006-36, Principal Only, Zero Coupon, 7/16/2036	605,050	482,686
"GD", Series 2004-26, 5.0%, 11/16/2032	2,184,000	2,128,701
"LG", Series 2003- 70, 5.0%, 8/20/2033	4,000,000	3,765,087
"KE", Series 2004-19, 5.0%, 3/16/2034	500,000	458,757
"ZM", Series 2004-24, 5.0%, 4/20/2034	1,801,136	1,630,628
"LE", Series 2004-87, 5.0%, 10/20/2034	1,000,000	927,557
"ZB", Series 2005-15, 5.0%, 2/16/2035	1,267,039	1,149,499
"YZ", Series 2007-7, 5.0%, 2/16/2037	630,778	629,200
"CK", Series 2007-31, 5.0%, 5/16/2037	1,000,000	963,568
"FH", Series 1999-18, 5.278%*, 5/16/2029	2,422,481	2,412,119
"FE", Series 2003-57, 5.328%*, 3/16/2033	170,382	168,849
"ZB", Series 2003-85, 5.5%, 10/20/2033	2,401,923	2,266,119
"B", Series 2005-88, 5.5%, 11/20/2035	1,804,000	1,771,679
"ZA", Series 2006-7, 5.5%, 2/20/2036	1,879,924	1,785,888
"ZW", Series 2007-36, 5.5%, 6/16/2037	706,687	706,042
"FB", Series 2001-28, 5.528%*, 6/16/2031	792,471	794,769
"PH" Series 2002- 84, 6.0%, 11/16/2032	500,000	503,543
Total Collateralized Mortgage Obligations (Cost $29,339,386)		**29,615,479**

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

	Principal Amount ($)	Value ($)
US Treasury Obligations 1.7%		
US Treasury Bill, 3.7%**, 1/17/2008 (a)	428,000	427,529
US Treasury Inflation Indexed Note, 2.0%, 4/15/2012	1,544,355	1,600,579
US Treasury Note, 3.375%, 11/30/2012	1,500,000	1,494,962
Total US Treasury Obligations (Cost $3,523,894)		**3,523,070**

	Shares	Value ($)
Cash Equivalents 2.4%		
Cash Management QP Trust, 4.67% (b) (Cost $4,800,048)	4,800,048	**4,800,048**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $228,886,007)†	112.5	**229,552,684**
Other Assets and Liabilities, Net	(12.5)	**(25,522,513)**
Net Assets	100.0	**204,030,171**

* *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, 2007.*

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

† *The cost for federal income tax purposes was $228,916,950. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $635,734. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,620,975 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,985,241.*

(a) *At December 31, 2007, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

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

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

At December 31, 2007, open futures contracts sold were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year US Treasury Note	3/19/2008	258	28,997,403	29,254,783	(257,380)
30 Year US Treasury Bond	3/19/2008	56	6,565,205	6,517,000	48,205
Total net unrealized depreciation					**(209,175)**

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal Home Loan Mortgage Corp., Federal National Mortgage Association and Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments	
Investments in securities, at value (cost $224,085,959)	$ 224,752,636
Investments in Cash Management QP Trust (cost $4,800,048)	4,800,048
Total investments, at value (cost $228,886,007)	229,552,684
Receivable for investments sold	60,522,840
Interest receivable	1,275,870
Due from Advisor	9,022
Other assets	4,425
Total assets	291,364,841
Liabilities	
Cash overdraft	691,564
Payable for investments purchased	26,409,835
Payable for investments purchased — mortgage dollar rolls	59,152,924
Payable for daily variation margin on open futures contracts	163,470
Payable for Portfolio shares redeemed	597,778
Accrued management fee	110,945
Other accrued expenses and payables	208,154
Total liabilities	87,334,670
Net assets, at value	**$ 204,030,171**
Net Assets Consist of	
Undistributed net investment income	10,227,324
Net unrealized appreciation (depreciation) on:	
Investments	666,677
Futures	(209,175)
Accumulated net realized gain (loss)	(2,681,050)
Paid-in capital	196,026,395
Net assets, at value	**$ 204,030,171**
Class A	
Net Asset Value, offering and redemption price per share ($199,044,759 ÷ 16,080,508 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.38**
Class B	
Net Asset Value, offering and redemption price per share ($4,985,412 ÷ 403,813 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.35**

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Interest	$ 10,745,591
Interest — Cash Management QP Trust	1,146,052
Total Income	11,891,643
Expenses:	
Management fee	1,209,630
Custodian fee	18,834
Distribution service fee (Class B)	38,854
Services to shareholders	924
Record keeping fees (Class B)	20,185
Professional fees	78,260
Trustees' fees and expenses	35,135
Reports to shareholders	73,344
Other	25,706
Total expenses before expense reductions	1,500,872
Expense reductions	(48,623)
Total expenses after expense reductions	1,452,249
Net investment income	**10,439,394**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(69,929)
Futures	(1,243,624)
Written options	27,232
	(1,286,321)
Change in net unrealized appreciation (depreciation) on:	
Investments	3,495,499
Futures	(221,834)
	3,273,665
Net gain (loss)	**1,987,344**
Net increase (decrease) in net assets resulting from operations	**$ 12,426,738**

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, 2007	2006
Operations:		
Net investment income	$ 10,439,394	$ 11,691,142
Net realized gain (loss)	(1,286,321)	(1,278,409)
Change in net unrealized appreciation (depreciation)	3,273,665	(560,933)
Net increase (decrease) in net assets resulting from operations	12,426,738	9,851,800
Distributions to shareholders from:		
Net investment income:		
Class A	(10,212,645)	(8,821,928)
Class B	(1,469,899)	(1,559,664)
Total distributions	(11,682,544)	(10,381,592)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	30,397,968	9,888,675
Reinvestment of distributions	10,212,645	8,821,928
Cost of shares redeemed	(53,955,468)	(51,098,907)
Net increase (decrease) in net assets from Class A share transactions	(13,344,855)	(32,388,304)
Class B		
Proceeds from shares sold	9,440,856	2,370,667
Reinvestment of distributions	1,469,899	1,559,664
Cost of shares redeemed	(38,336,134)	(17,355,673)
Net increase (decrease) in net assets from Class B share transactions	(27,425,379)	(13,425,342)
Increase (decrease) in net assets	**(40,026,040)**	**(46,343,438)**
Net assets at beginning of period	244,056,211	290,399,649
Net assets at end of period (including undistributed net investment income of $10,227,324 and $11,470,474, respectively)	**$ 204,030,171**	**$ 244,056,211**

Other Information		
Class A		
Shares outstanding at beginning of period	17,174,275	19,851,802
Shares sold	2,509,518	824,144
Shares issued to shareholders in reinvestment of distributions	862,554	749,527
Shares redeemed	(4,465,839)	(4,251,198)
Net increase (decrease) in Class A shares	(1,093,767)	(2,677,527)
Shares outstanding at end of period	**16,080,508**	**17,174,275**
Class B		
Shares outstanding at beginning of period	2,706,547	3,838,802
Shares sold	788,569	196,489
Shares issued to shareholders in reinvestment of distributions	124,042	132,399
Shares redeemed	(3,215,345)	(1,461,143)
Net increase (decrease) in Class B shares	(2,302,734)	(1,132,255)
Shares outstanding at end of period	**403,813**	**2,706,547**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$12.28**	**$12.26**	**$12.55**	**$12.54**	**$12.84**
Income (loss) from investment operations:					
Net investment income[a]	.58	.55	.51	.44	.31
Net realized and unrealized gain (loss)	.12	(.06)	(.20)	.03	(.04)
Total from investment operations	.70	.49	.31	.47	.27
Less distributions from:					
Net investment income	(.60)	(.47)	(.50)	(.35)	(.35)
Net realized gains	—	—	(.10)	(.11)	(.22)
Total distributions	(.60)	(.47)	(.60)	(.46)	(.57)
Net asset value, end of period	**$12.38**	**$12.28**	**$12.26**	**$12.55**	**$12.54**
Total Return (%)	5.95[b]	4.16	2.57	3.75	2.26
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	199	211	243	280	347
Ratio of expenses before expense reductions(%)	.66	.67	.63	.61	.61
Ratio of expenses after expense reductions (%)	.63	.67	.63	.61	.61
Ratio of net investment income (loss) (%)	4.77	4.56	4.17	3.59	2.50
Portfolio turnover rate (%)[c]	465	241	191	226	511

[a] *Based on average shares outstanding during the period.*

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

[c] *The portfolio turnover rate including mortgage dollar roll transactions was 629%, 403%, 325%, 391% and 536% for the periods ended December 31, 2007, December 31, 2006, December 31, 2005, December 31, 2004 and December 31, 2003, respectively.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$12.25**	**$12.23**	**$12.52**	**$12.51**	**$12.82**
Income (loss) from investment operations:					
Net investment income[a]	.53	.50	.47	.40	.27
Net realized and unrealized gain (loss)	.12	(.06)	(.21)	.02	(.04)
Total from investment operations	.65	.44	.26	.42	.23
Less distributions from:					
Net investment income	(.55)	(.42)	(.45)	(.30)	(.32)
Net realized gains	—	—	(.10)	(.11)	(.22)
Total distributions	(.55)	(.42)	(.55)	(.41)	(.54)
Net asset value, end of period	**$12.35**	**$12.25**	**$12.23**	**$12.52**	**$12.51**
Total Return (%)	5.43[b]	3.74	2.24	3.36	1.83
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	5	33	47	49	38
Ratio of expenses before expense reductions(%)	1.04	1.07	1.02	1.00	.98
Ratio of expenses after expense reductions (%)	1.01	1.07	1.02	1.00	.98
Ratio of net investment income (%)	4.39	4.16	3.78	3.21	2.13
Portfolio turnover rate (%)[c]	465	241	191	226	511

[a] *Based on average shares outstanding during the period.*

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

[c] *The portfolio turnover rate including mortgage dollar roll transactions was 629%, 403%, 325%, 391% and 536% for the periods ended December 31, 2007, December 31, 2006, December 30, 2005, December 31, 2004 and December 31, 2003, respectively.*

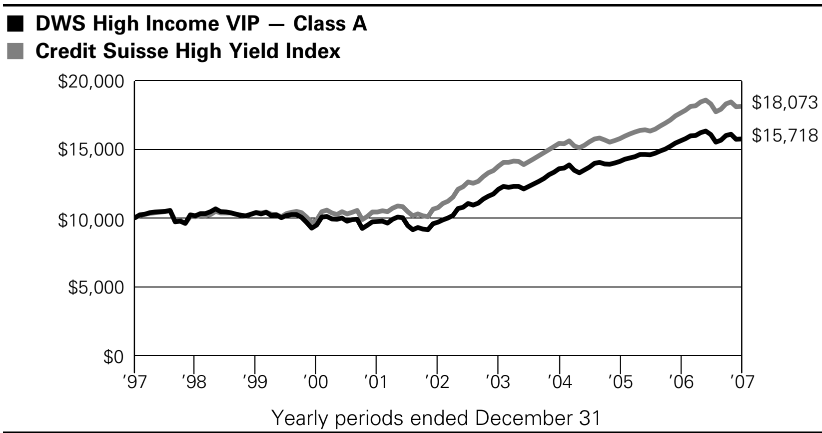
DWS High Income VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .70% and 1.10% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the year ended December 31, 2007.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS High Income VIP



The Credit Suisse High Yield Index is an unmanaged index that is market-weighted, including publicly traded bonds having a rating below BBB by Standard & Poor's and Moody's.

Index returns, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS High Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,096	$11,586	$16,232	$15,718
	Average annual total return	.96%	5.03%	10.17%	4.63%
Credit Suisse High Yield Index	Growth of $10,000	$10,265	$11,748	$16,826	$18,073
	Average annual total return	2.65%	5.52%	10.97%	6.10%

DWS High Income VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,054	$11,448	$15,929	$16,326
	Average annual total return	.54%	4.61%	9.76%	9.32%
Credit Suisse High Yield Index	Growth of $10,000	$10,265	$11,748	$16,826	$17,321
	Average annual total return	2.65%	5.52%	10.97%	10.49%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS High Income VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$ 979.90	$ 978.70
Expenses Paid per $1,000*	$ 3.39	$ 5.49

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,021.78	$1,019.66
Expenses Paid per $1,000*	$ 3.47	$ 5.60

* *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**
DWS Variable Series II — DWS High Income VIP	.68%	1.10%

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

These tables do not 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.

DWS High Income VIP

High-yield bonds provided a positive total return during 2007, but the gains were confined to the first half of the year. During this time, the market was supported by abundant liquidity, and investors' hearty appetite for risk. The second half of 2007 proved more challenging, as the combination of weakness in the subprime mortgage sector, tighter liquidity, slower economic growth and weakening corporate earnings led to heightened investor risk aversion and rising yield spreads relative to US Treasuries.

The Portfolio's Class A shares provided a total return of 0.96% (unadjusted for contract charges) for the 12 months ended December 31, 2007. In comparison, the Credit Suisse High Yield Index returned 2.65%. The Portfolio's performance was helped by an underweight in housing and real estate development issues, which underperformed, as well as our decision to avoid both Delphi and Countrywide Financial.[1] Also helping performance was an underweight position in Realogy Corp. and an overweight in Kansas City Southern Railroad Co. Among the largest detractors were the homebuilder K. Hovanian Enterprises; Tropicana Entertainment LLC, which lost its gaming license in Atlantic City; Alliance Mortgage; and the lack of a position in Calpine.

We remain cautiously optimistic on the outlook for the high-yield asset class, believing its fundamentals remain strong. Additionally, the asset class enters 2008 with a yield substantially above that of US Treasuries — a positive starting point. Having said that, we believe our bottom-up, research-driven approach can prove well-suited to the more risk-conscious environment likely to characterize the months ahead, during which the avoidance of downside risk in specific issues is likely to prove critical to outperformance.

Gary Sullivan, CFA
Portfolio Manager
Deutsche Investment Management Americas Inc.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the investment, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Credit Suisse High Yield Index is an unmanaged index that is market-weighted, including publicly traded bonds having a rating below BBB by Standard & Poor's and Moody's. Index returns, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS High Income VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Corporate Bonds	89%	98%
Senior Loans	7%	—
Cash Equivalents	3%	1%
Other Investments	1%	1%
	100%	100%

Bond Diversification (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/07**	**12/31/06**
Consumer Discretionary	22%	25%
Financials	14%	16%
Industrials	13%	10%
Materials	11%	15%
Energy	11%	8%
Telecommunication Services	8%	8%
Utilities	7%	9%
Health Care	6%	2%
Information Technology	4%	4%
Consumer Staples	4%	2%
Sovereign Bonds	—	1%
	100%	100%

Quality	**12/31/07**	**12/31/06**
Cash Equivalents	3%	1%
BBB	4%	3%
BB	29%	30%
B	51%	50%
CCC	13%	16%
	100%	100%

Asset allocation, bond diversification and foreign bonds diversification and quality are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 103. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com as of each calendar quarter-end on or after the last day 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, 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.

DWS High Income VIP

		Principal Amount ($)(a)	Value ($)
Corporate Bonds 88.2%			
Consumer Discretionary 19.8%			
AAC Group Holding Corp., 14.75%, 10/1/2012 (PIK) (b)		488,392	446,879
Affinia Group, Inc., 9.0%, 11/30/2014		905,000	814,500
AMC Entertainment, Inc., 8.0%, 3/1/2014		1,305,000	1,226,700
American Achievement Corp., 8.25%, 4/1/2012		255,000	248,625
American Media Operations, Inc., Series B, 10.25%, 5/1/2009 (b)		347,180	297,872
Asbury Automotive Group, Inc.:			
7.625%, 3/15/2017		590,000	522,150
8.0%, 3/15/2014		250,000	236,250
Ashtead Holdings PLC, 144A, 8.625%, 8/1/2015		420,000	367,500
Burlington Coat Factory Warehouse Corp., 11.125%, 4/15/2014		510,000	409,275
Cablevision Systems Corp., Series B, 9.644%**, 4/1/2009		335,000	338,769
Caesars Entertainment, Inc., 8.875%, 9/15/2008		620,000	641,130
CanWest MediaWorks LP, 144A, 9.25%, 8/1/2015		380,000	371,925
Carrols Corp., 9.0%, 1/15/2013		250,000	227,500
Charter Communications Holdings LLC:			
Series B, 10.25%, 9/15/2010		940,000	916,500
10.25%, 9/15/2010		2,005,000	1,964,900
11.0%, 10/1/2015		2,157,000	1,757,955
Cirsa Capital Luxembourg, 144A, 7.875%, 7/15/2012	EUR	285,000	375,016
Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014 (b)		325,000	257,563
CSC Holdings, Inc.:			
7.25%, 7/15/2008		540,000	540,675
Series B, 8.125%, 7/15/2009		450,000	457,313
Series B, 8.125%, 8/15/2009		900,000	915,750
Denny's Corp. Holdings, Inc., 10.0%, 10/1/2012		165,000	158,606
Dollar General Corp., 144A, 10.625%, 7/15/2015		470,000	431,225
Dollarama Group LP, 144A, 10.599%**, 8/15/2012		387,000	387,000
EchoStar DBS Corp.:			
6.625%, 10/1/2014		665,000	661,675
7.125%, 2/1/2016		650,000	663,000
Fontainebleau Las Vegas Holdings LLC, 144A, 10.25%, 6/15/2015		720,000	624,600
Foot Locker, Inc., 8.5%, 1/15/2022		175,000	161,000
French Lick Resorts & Casinos LLC, 144A, 10.75%, 4/15/2014		1,935,000	1,412,550
General Motors Corp.:			
7.2%, 1/15/2011		1,645,000	1,513,400
7.4%, 9/1/2025		530,000	384,250
8.375%, 7/15/2033		1,070,000	861,350
Goodyear Tire & Rubber Co., 11.25%, 3/1/2011		1,585,000	1,684,062
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015		505,000	499,950
Group 1 Automotive, Inc., 8.25%, 8/15/2013		250,000	241,250
Hanesbrands, Inc., Series B, 8.204%**, 12/15/2014		755,000	747,450
Hertz Corp.:			
8.875%, 1/1/2014		1,180,000	1,196,225
10.5%, 1/1/2016 (b)		310,000	320,850
Idearc, Inc., 8.0%, 11/15/2016		2,140,000	1,963,450
Indianapolis Downs LLC, 144A, 11.0%, 11/1/2012		330,000	318,450
ION Media Networks, Inc., 144A, 11.493%**, 1/15/2013		515,000	506,631
Isle of Capri Casinos, Inc., 7.0%, 3/1/2014		760,000	623,200
Jarden Corp., 7.5%, 5/1/2017		420,000	361,200
Kabel Deutschland GmbH, 10.625%, 7/1/2014		115,000	120,750
Lamar Media Corp., 144A, 6.625%, 8/15/2015		330,000	320,925
Liberty Media LLC:			
5.7%, 5/15/2013 (b)		95,000	88,009
8.25%, 2/1/2030		765,000	734,125
8.5%, 7/15/2029 (b)		735,000	719,927
Majestic Star Casino LLC, 9.5%, 10/15/2010		95,000	89,775
Mediacom Broadband LLC, 8.5%, 10/15/2015		40,000	35,450
MediMedia USA, Inc., 144A, 11.375%, 11/15/2014		255,000	262,650
Metaldyne Corp., 11.0%, 6/15/2012 (b)		140,000	90,300
MGM MIRAGE:			
6.75%, 9/1/2012		215,000	209,356
8.375%, 2/1/2011 (b)		475,000	485,688
MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010		880,000	880,000
Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012 (b)		1,385,000	1,246,500
Penske Automotive Group, Inc., 7.75%, 12/15/2016		1,260,000	1,178,100
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013 (b)		525,000	534,187
Quebecor Media, Inc., 144A, 7.75%, 3/15/2016		325,000	312,000
Quebecor World, Inc., 144A, 9.75%, 1/15/2015		420,000	315,525
Quiksilver, Inc., 6.875%, 4/15/2015		560,000	480,200
Reader's Digest Association, Inc., 144A, 9.0%, 2/15/2017		345,000	288,938
Sabre Holdings Corp., 8.35%, 3/15/2016		460,000	409,400

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

		Principal Amount ($)(a)	Value ($)
Seminole Hard Rock Entertainment, Inc., 144A, 7.491%**, 3/15/2014		590,000	563,450
Shingle Springs Tribal Gaming Authority, 144A, 9.375%, 6/15/2015		410,000	397,700
Simmons Co.:			
Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014		1,655,000	1,224,700
7.875%, 1/15/2014		310,000	286,750
Sinclair Television Group, Inc., 8.0%, 3/15/2012 (b)		302,000	307,663
Sirius Satellite Radio, Inc., 9.625%, 8/1/2013		755,000	713,475
Six Flags, Inc., 9.75%, 4/15/2013		230,000	172,500
Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013		490,000	476,525
Station Casinos, Inc., 6.5%, 2/1/2014		1,000,000	750,000
Toys "R" Us, Inc., 7.375%, 10/15/2018		425,000	307,063
Travelport LLC:			
9.749%**, 9/1/2014		390,000	377,325
9.875%, 9/1/2014		395,000	400,925
Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015 (b)		1,100,000	837,375
United Components, Inc., 9.375%, 6/15/2013		80,000	79,000
Unity Media GmbH, 144A, 10.375%, 2/15/2015		255,000	260,100
Univision Communications, Inc., 144A, 9.75%, 3/15/2015 (PIK)		1,420,000	1,293,975
UPC Holding BV:			
144A, 7.75%, 1/15/2014	EUR	430,000	599,605
144A, 8.0%, 11/1/2016	EUR	190,000	261,817
Vitro SAB de CV:			
8.625%, 2/1/2012 (b)		335,000	314,900
9.125%, 2/1/2017		780,000	717,600
Series A, 11.75%, 11/1/2013 (b)		215,000	224,138
XM Satellite Radio, Inc., 9.75%, 5/1/2014		985,000	952,987
Young Broadcasting, Inc., 8.75%, 1/15/2014		2,405,000	1,710,556
			51,088,055

Consumer Staples 3.8%

		Principal Amount ($)(a)	Value ($)
Alliance One International, Inc., 8.5%, 5/15/2012		250,000	243,750
Del Laboratories, Inc., 8.0%, 2/1/2012		420,000	436,800
Delhaize America, Inc.:			
8.05%, 4/15/2027		190,000	200,290
9.0%, 4/15/2031		1,017,000	1,175,831
General Nutrition Centers, Inc., 10.009%**, 3/15/2014 (PIK)		590,000	557,550
Harry & David Holdings, Inc., 10.124%**, 3/1/2012		360,000	338,400
North Atlantic Trading Co., 144A, 10.0%, 3/1/2012		2,081,750	1,915,210
Pierre Foods, Inc., 9.875%, 7/15/2012		290,000	211,700
Pilgrim's Pride Corp., 7.625%, 5/1/2015		210,000	206,325
Rite Aid Corp., 7.5%, 3/1/2017		690,000	608,063
Smithfield Foods, Inc., 7.75%, 7/1/2017 (b)		580,000	561,150
Tereos Europe SA, 144A, 6.375%, 4/15/2014	EUR	150,000	188,604
Viskase Companies, Inc., 11.5%, 6/15/2011		3,100,000	3,100,000
			9,743,673

Energy 7.4%

		Principal Amount ($)(a)	Value ($)
Belden & Blake Corp., 8.75%, 7/15/2012		2,280,000	2,302,800
Chaparral Energy, Inc., 8.5%, 12/1/2015		600,000	540,000
Chesapeake Energy Corp.:			
6.25%, 1/15/2018		325,000	312,000
6.875%, 1/15/2016		1,421,000	1,406,790
7.75%, 1/15/2015		220,000	224,400
Cimarex Energy Co., 7.125%, 5/1/2017		410,000	402,825
Delta Petroleum Corp., 7.0%, 4/1/2015		1,115,000	953,325
Dynegy Holdings, Inc.:			
6.875%, 4/1/2011 (b)		195,000	188,175
8.375%, 5/1/2016		945,000	923,737
Energy Partners Ltd., 9.75%, 4/15/2014		405,000	382,725
Frontier Oil Corp., 6.625%, 10/1/2011		365,000	363,175
Mariner Energy, Inc.:			
7.5%, 4/15/2013		145,000	139,563
8.0%, 5/15/2017		340,000	323,425
OPTI Canada, Inc., 144A, 8.25%, 12/15/2014		505,000	499,950
Plains Exploration & Production Co., 7.0%, 3/15/2017		245,000	234,281
Quicksilver Resources, Inc., 7.125%, 4/1/2016		325,000	319,313
Sabine Pass LNG LP, 7.5%, 11/30/2016		1,370,000	1,308,350
Stone Energy Corp., 6.75%, 12/15/2014		1,450,000	1,344,875
Tennessee Gas Pipeline Co., 7.625%, 4/1/2037		420,000	451,755
Tesoro Corp., 6.5%, 6/1/2017		675,000	668,250
VeraSun Energy Corp., 144A, 9.375%, 6/1/2017		330,000	287,925
Whiting Petroleum Corp.:			
7.0%, 2/1/2014		500,000	495,000
7.25%, 5/1/2012		680,000	669,800
7.25%, 5/1/2013		165,000	162,525
Williams Companies, Inc.:			
8.125%, 3/15/2012		1,365,000	1,486,144
8.75%, 3/15/2032		1,885,000	2,304,412
Williams Partners LP, 7.25%, 2/1/2017		420,000	432,600
			19,128,120

Financials 13.1%

		Principal Amount ($)(a)	Value ($)
Algoma Acquisition Corp., 144A, 9.875%, 6/15/2015		1,250,000	1,025,000
Ashton Woods USA LLC, 9.5%, 10/1/2015		1,370,000	876,800
Buffalo Thunder Development Authority, 144A, 9.375%, 12/15/2014		250,000	222,500
CEVA Group PLC, 144A, 8.5%, 12/1/2014	EUR	360,000	434,229

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

	Principal Amount ($)(a)	Value ($)
Conproca SA de CV, Series REG S, 12.0%, 6/16/2010	2,385,000	2,587,725
E*TRADE Financial Corp.:		
7.375%, 9/15/2013	740,000	569,800
7.875%, 12/1/2015	1,160,000	884,500
8.0%, 6/15/2011	920,000	798,100
Ford Motor Credit Co., LLC:		
7.25%, 10/25/2011	2,960,000	2,563,831
7.375%, 10/28/2009	3,240,000	3,049,637
7.875%, 6/15/2010	1,790,000	1,651,574
GMAC LLC, 6.875%, 9/15/2011	6,055,000	5,180,016
Hawker Beechcraft Acquisition Co., LLC:		
144A, 8.5%, 4/1/2015	780,000	780,000
144A, 8.875%, 4/1/2015 (PIK)	895,000	886,050
144A, 9.75%, 4/1/2017	630,000	626,850
Hexion US Finance Corp., 9.75%, 11/15/2014	470,000	507,600
Hub International Holdings, Inc., 144A, 9.0%, 12/15/2014	335,000	298,988
Inmarsat Finance PLC, Step-up Coupon, 0% to 11/15/2008, 10.375% to 11/15/2012	500,000	485,625
iPayment, Inc., 9.75%, 5/15/2014	475,000	444,125
KAR Holdings, Inc.:		
144A, 8.75%, 5/1/2014	460,000	423,200
144A, 10.0%, 5/1/2015	320,000	285,600
Local TV Finance LLC, 144A, 9.25%, 6/15/2015 (PIK)	430,000	410,650
New ASAT (Finance) Ltd., 9.25%, 2/1/2011	575,000	461,437
Nuveen Investments, Inc., 144A, 10.5%, 11/15/2015	820,000	816,925
Petroplus Finance Ltd.:		
144A, 6.75%, 5/1/2014	355,000	330,594
144A, 7.0%, 5/1/2017	355,000	324,825
Pinnacle Foods Finance LLC, 144A, 9.25%, 4/1/2015	335,000	305,687
Realogy Corp., 144A, 12.375%, 4/15/2015 (b)	325,000	204,750
Residential Capital LLC:		
5.646%**, 6/9/2008	160,000	136,800
7.625%, 11/21/2008	810,000	643,950
7.782%**, 11/21/2008	1,290,000	1,025,550
Triad Acquisition Corp., Series B, 11.125%, 5/1/2013	280,000	207,200
Tropicana Entertainment LLC, 9.625%, 12/15/2014	1,370,000	869,950
U.S.I. Holdings Corp.:		
144A, 8.744%**, 11/15/2014	255,000	218,025
144A, 9.75%, 5/15/2015	150,000	120,750
UCI Holdco, Inc., 12.491%**, 12/15/2013 (PIK)	574,851	543,234
Universal City Development Partners, 11.75%, 4/1/2010	2,125,000	2,199,375
Yankee Acquisition Corp., Series B, 8.5%, 2/15/2015 (b)	320,000	294,800
		33,696,252

Health Care 4.8%

	Principal Amount ($)(a)	Value ($)
Advanced Medical Optics, Inc., 7.5%, 5/1/2017	620,000	570,400
Bausch & Lomb, Inc., 144A, 9.875%, 11/1/2015	665,000	674,975
Boston Scientific Corp., 6.0%, 6/15/2011	410,000	395,650
Community Health Systems, Inc., 8.875%, 7/15/2015	3,010,000	3,066,437
HCA, Inc.:		
9.125%, 11/15/2014	760,000	790,400
9.25%, 11/15/2016	1,330,000	1,396,500
9.625%, 11/15/2016 (PIK)	670,000	708,525
HEALTHSOUTH Corp., 10.75%, 6/15/2016	560,000	585,200
IASIS Healthcare LLC, 8.75%, 6/15/2014	315,000	315,000
Psychiatric Solutions, Inc., 7.75%, 7/15/2015	420,000	418,950
Sun Healthcare Group, Inc., 9.125%, 4/15/2015	420,000	423,150
Surgical Care Affiliates, Inc., 144A, 8.875%, 7/15/2015 (PIK)	515,000	468,650
The Cooper Companies, Inc., 7.125%, 2/15/2015	840,000	816,900
Universal Hospital Services, Inc., 8.5%, 6/1/2015 (PIK)	295,000	297,950
Vanguard Health Holding Co. I, LLC, Step-up Coupon, 0% to 10/1/2009, 11.25% to 10/1/2015	505,000	373,700
Vanguard Health Holding Co. II, LLC, 9.0%, 10/1/2014	1,215,000	1,169,438
		12,471,825

Industrials 11.8%

	Principal Amount ($)(a)	Value ($)
Actuant Corp., 144A, 6.875%, 6/15/2017	335,000	331,650
Aleris International, Inc., 9.0%, 12/15/2014 (PIK)	590,000	492,650
Allied Security Escrow Corp., 11.375%, 7/15/2011	769,000	722,860
American Color Graphics, Inc., 10.0%, 6/15/2010	850,000	459,000
American Color Graphics, Inc., Promissory Note due 3/15/2008 (f)	51,000	27,540
American Railcar Industries, Inc., 7.5%, 3/1/2014	420,000	396,900
ARAMARK Corp.:		
8.411%**, 2/1/2015	585,000	570,375
8.5%, 2/1/2015 (b)	680,000	688,500
Baldor Electric Co., 8.625%, 2/15/2017	420,000	432,600
Belden, Inc., 7.0%, 3/15/2017	420,000	409,500
Bombardier, Inc.:		
144A, 6.3%, 5/1/2014	265,000	259,038
144A, 8.0%, 11/15/2014 (b)	115,000	120,175
Bristow Group, Inc., 144A, 7.5%, 9/15/2017	500,000	502,500
Browning-Ferris Industries, Inc., 7.4%, 9/15/2035	1,560,000	1,450,800
Building Materials Corp. of America, 7.75%, 8/1/2014	585,000	447,525
Cenveo Corp., 7.875%, 12/1/2013	1,062,000	946,507
Congoleum Corp., 8.625%, 8/1/2008*	1,200,000	900,000
DRS Technologies, Inc.:		
6.625%, 2/1/2016	210,000	207,375
6.875%, 11/1/2013 (b)	655,000	651,725
7.625%, 2/1/2018	1,450,000	1,468,125
Education Management LLC, 8.75%, 6/1/2014	430,000	431,613
Esco Corp.:		
144A, 8.625%, 12/15/2013	730,000	730,000
144A, 8.866%**, 12/15/2013	430,000	421,400

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

		Principal Amount ($)(a)	Value ($)
General Cable Corp.:			
7.125%, 4/1/2017		500,000	490,000
7.606%**, 4/1/2015		505,000	479,750
Great Lakes Dredge & Dock Co., 7.75%, 12/15/2013		335,000	313,225
Harland Clarke Holdings Corp., 9.5%, 5/15/2015		420,000	363,300
Iron Mountain, Inc., 8.75%, 7/15/2018 (b)		330,000	346,913
K. Hovnanian Enterprises, Inc.:			
6.25%, 1/15/2016		1,600,000	1,088,000
8.875%, 4/1/2012		1,495,000	852,150
Kansas City Southern de Mexico SA de CV:			
144A, 7.375%, 6/1/2014		335,000	325,788
7.625%, 12/1/2013		1,085,000	1,070,081
9.375%, 5/1/2012		1,065,000	1,115,587
Kansas City Southern Railway Co.:			
7.5%, 6/15/2009		380,000	380,475
9.5%, 10/1/2008		2,705,000	2,759,100
Mobile Services Storage Group, 9.75%, 8/1/2014		775,000	713,000
Navios Maritime Holdings, Inc., 9.5%, 12/15/2014		675,000	690,187
Panolam Industries International, Inc., 10.75%, 10/1/2013		265,000	230,550
R.H. Donnelley Corp., 144A, 8.875%, 10/15/2017		1,560,000	1,443,000
Rainbow National Services LLC, 144A, 10.375%, 9/1/2014		112,000	121,380
RBS Global, Inc. & Rexnord Corp., 9.5%, 8/1/2014		370,000	366,300
Ship Finance International Ltd., 8.5%, 12/15/2013		415,000	420,706
Swift Transportation Co., 144A, 12.5%, 5/15/2017 (b)		340,000	175,525
Tenneco, Inc., 144A, 8.125%, 11/15/2015		245,000	242,550
Titan International, Inc., 8.0%, 1/15/2012		1,325,000	1,278,625
TransDigm, Inc., 7.75%, 7/15/2014		260,000	263,900
U.S. Concrete, Inc., 8.375%, 4/1/2014 (b)		470,000	411,250
United Rentals North America, Inc.:			
6.5%, 2/15/2012		230,000	208,725
7.0%, 2/15/2014		1,095,000	917,062
Xerox Capital Trust I, 8.0%, 2/1/2027		315,000	314,602
			30,450,089
Information Technology 2.9%			
Alion Science & Technology Corp., 10.25%, 2/1/2015		350,000	298,375
First Data Corp., 144A, 9.875%, 9/24/2015		485,000	451,050
Freescale Semiconductor, Inc., 8.875%, 12/15/2014		420,000	374,850
L-3 Communications Corp.:			
5.875%, 1/15/2015		1,280,000	1,235,200
Series B, 6.375%, 10/15/2015		705,000	694,425
Lucent Technologies, Inc., 6.45%, 3/15/2029 (b)		1,410,000	1,165,012
MasTec, Inc., 7.625%, 2/1/2017		610,000	573,400
Sanmina-SCI Corp.:			
144A, 7.741%**, 6/15/2010		196,000	195,510
8.125%, 3/1/2016		235,000	208,269
Seagate Technology HDD Holdings, 6.8%, 10/1/2016		800,000	780,000
SunGard Data Systems, Inc., 10.25%, 8/15/2015		1,090,000	1,114,525
Vangent, Inc., 9.625%, 2/15/2015		350,000	300,125
			7,390,741
Materials 10.7%			
Appleton Papers, Inc., Series B, 8.125%, 6/15/2011		235,000	230,594
ARCO Chemical Co., 9.8%, 2/1/2020		3,790,000	3,676,300
Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014		850,000	544,000
Cascades, Inc., 7.25%, 2/15/2013		1,246,000	1,168,125
Chemtura Corp., 6.875%, 6/1/2016		720,000	676,800
Clondalkin Acquisition BV, 144A, 6.991%**, 12/15/2013		540,000	510,300
CPG International I, Inc.:			
10.5%, 7/1/2013		1,190,000	1,124,550
12.13%**, 7/1/2012		280,000	268,800
Exopack Holding Corp., 11.25%, 2/1/2014		1,415,000	1,386,700
Freeport-McMoRan Copper & Gold, Inc., 8.375%, 4/1/2017		665,000	713,212
GEO Specialty Chemicals, Inc., 144A, 13.729%**, 12/31/2009 (c)		3,044,000	2,283,000
Georgia-Pacific Corp., 144A, 7.125%, 1/15/2017		295,000	286,887
Gibraltar Industries, Inc., Series B, 8.0%, 12/1/2015		435,000	391,500
Hexcel Corp., 6.75%, 2/1/2015		1,735,000	1,700,300
Huntsman LLC, 11.625%, 10/15/2010		1,277,000	1,353,620
Innophos, Inc., 8.875%, 8/15/2014		190,000	189,050
Jefferson Smurfit Corp., 8.25%, 10/1/2012 (b)		620,000	610,700
Koppers Holdings, Inc., Step-up Coupon, 0% to 11/15/2009, 9.875% to 11/15/2014		1,145,000	961,800
Massey Energy Co.:			
6.625%, 11/15/2010		125,000	122,188
6.875%, 12/15/2013		590,000	556,075
Metals USA Holdings Corp., 144A, 11.231%**, 7/1/2012 (PIK)		565,000	463,300
Millar Western Forest Products Ltd., 7.75%, 11/15/2013		200,000	149,000
Momentive Performance Materials, Inc., 144A, 9.75%, 12/1/2014		475,000	437,000
Mueller Water Products, Inc., 7.375%, 6/1/2017		245,000	218,969
Neenah Foundry Co., 9.5%, 1/1/2017		120,000	96,600
NewMarket Corp., 7.125%, 12/15/2016		1,045,000	1,034,550
OI European Group BV, 144A, 6.875%, 3/31/2017	EUR	475,000	663,223
Pliant Corp., 11.625%, 6/15/2009 (PIK)		11	11
Radnor Holdings Corp., 11.0%, 3/15/2010*		265,000	1,988
Rhodia SA, 144A, 7.482%**, 10/15/2013	EUR	475,000	671,903

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

	Principal Amount ($)(a)	Value ($)
Smurfit-Stone Container Enterprises, Inc.:		
8.0%, 3/15/2017	835,000	806,819
8.375%, 7/1/2012	420,000	416,850
Steel Dynamics, Inc.:		
144A, 6.75%, 4/1/2015	675,000	651,375
144A, 7.375%, 11/1/2012	155,000	155,775
Terra Capital, Inc., Series B, 7.0%, 2/1/2017	905,000	884,637
The Mosaic Co., 144A, 7.625%, 12/1/2014	755,000	807,850
TriMas Corp., 9.875%, 6/15/2012	258,000	251,550
Witco Corp., 6.875%, 2/1/2026	360,000	289,800
Wolverine Tube, Inc., 10.5%, 4/1/2009	770,000	731,500
		27,487,201
Telecommunication Services 6.7%		
BCM Ireland Preferred Equity Limited, 144A, 11.58%**, 2/15/2017 (PIK) EUR	479,970	645,518
Cell C Property Ltd., 144A, 11.0%, 7/1/2015	1,640,000	1,402,200
Centennial Communications Corp.:		
10.0%, 1/1/2013 (b)	995,000	1,034,800
10.125%, 6/15/2013	335,000	351,750
Cincinnati Bell, Inc.:		
7.25%, 7/15/2013	795,000	796,987
8.375%, 1/15/2014	450,000	438,750
Cricket Communications, Inc., 144A, 9.375%, 11/1/2014	930,000	871,875
Embratel, Series B, 11.0%, 12/15/2008 (b)	197,000	206,358
Grupo Iusacell Cellular SA de CV, 10.0%, 3/31/2012	285,718	284,289
Intelsat Bermuda Ltd.:		
8.886%**, 1/15/2015	95,000	95,238
9.25%, 6/15/2016	285,000	286,425
11.25%, 6/15/2016	860,000	887,950
Intelsat Corp., 9.0%, 6/15/2016	330,000	332,475
Intelsat Ltd., 5.25%, 11/1/2008	325,000	320,937
Intelsat Subsidiary Holding Co., Ltd., 8.25%, 1/15/2013	700,000	703,500
iPCS, Inc., 7.036%**, 5/1/2013	200,000	188,500
MetroPCS Wireless, Inc., 9.25%, 11/1/2014	975,000	916,500
Millicom International Cellular SA, 10.0%, 12/1/2013	685,000	729,525
Nortel Networks Ltd., 144A, 9.493%**, 7/15/2011	780,000	760,500
Orascom Telecom Finance, 144A, 7.875%, 2/8/2014	170,000	160,650
Qwest Corp., 7.25%, 9/15/2025	145,000	136,300
Rural Cellular Corp., 9.875%, 2/1/2010	775,000	804,062
Stratos Global Corp., 9.875%, 2/15/2013	330,000	348,150
SunCom Wireless Holdings, Inc., 8.5%, 6/1/2013	950,000	983,250
US Unwired, Inc., Series B, 10.0%, 6/15/2012	980,000	1,038,969

	Principal Amount ($)(a)	Value ($)
Virgin Media Finance PLC:		
8.75%, 4/15/2014 EUR	700,000	1,000,408
8.75%, 4/15/2014	990,000	982,575
West Corp., 9.5%, 10/15/2014	500,000	490,000
		17,198,441
Utilities 7.2%		
AES Corp.:		
144A, 8.0%, 10/15/2017	830,000	848,675
144A, 8.75%, 5/15/2013	1,504,000	1,569,800
Allegheny Energy Supply Co., LLC, 144A, 8.25%, 4/15/2012	2,355,000	2,513,963
CMS Energy Corp., 8.5%, 4/15/2011	1,030,000	1,109,526
Edison Mission Energy, 7.0%, 5/15/2017	760,000	746,700
Energy Future Holdings Corp., 144A, 10.875%, 11/1/2017	1,240,000	1,246,200
Mirant Americas Generation LLC, 8.3%, 5/1/2011	610,000	611,525
Mirant North America LLC, 7.375%, 12/31/2013	300,000	300,750
NRG Energy, Inc.:		
7.25%, 2/1/2014	1,560,000	1,521,000
7.375%, 2/1/2016	1,830,000	1,784,250
PSE&G Energy Holdings LLC, 10.0%, 10/1/2009	1,665,000	1,754,927
Regency Energy Partners LP, 8.375%, 12/15/2013	575,000	592,250
Reliant Energy, Inc., 7.875%, 6/15/2017	840,000	831,600
Sierra Pacific Resources:		
6.75%, 8/15/2017	975,000	986,301
8.625%, 3/15/2014	200,000	213,706
Texas Competitive Electric Holdings Co., LLC, 144A, 10.25%, 11/1/2015	1,820,000	1,801,800
		18,432,973
Total Corporate Bonds (Cost $242,672,301)		**227,087,370**

Senior Loans** 6.8%

	Principal Amount ($)(a)	Value ($)
Advanced Medical Optics, Inc., Term Loan B, LIBOR plus 1.75%, 5.974%, 4/2/2014	248,051	233,710
Aleris International, Inc.:		
Term Loan B, LIBOR plus 2.375%, 6.599%, 12/14/2013	165,000	149,985
Term Loan, LIBOR plus 2.375%, 6.599%, 12/19/2013	169,146	153,753
Alliance Mortgage Cycle Loan, LIBOR plus 7.25%, 11.474%, 6/4/2010*	700,000	70,000
Bausch & Lomb, Inc. Term Loan B, LIBOR plus 3.25%, 7.474%, 4/11/2015	661,000	658,899
Buffets, Inc.:		
Letter of Credit, 7.7%, 5/1/2013	128,602	106,868
Term Loan B, 7.74%, 1/13/2011	1,129,087	938,272
Dollar General Corp., Term Loan B, LIBOR plus 2.75%, 6.974%, 7/6/2014	390,000	359,071
Energy Future Holdings Corp.:		
Term Loan B3, LIBOR plus 3.5%, 7.724%, 10/10/2014	2,480,000	2,444,362
Term Loan B1, LIBOR plus 3.5%, 7.724%, 10/10/2014	3,805,000	3,739,459

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

	Principal Amount ($)(a)	Value ($)
First Data Corp., Term Loan B1, LIBOR plus 2.75%, 6.974%, 9/17/2014	1,291,638	1,227,579
General Nutrition Centers, Inc., Term Loan B, LIBOR plus 2.25%, 6.474%, 9/16/2013	245,000	223,813
Golden Nugget, 8.22%, 6/16/2014	460,000	418,600
Hawker Beechcraft, Inc.:		
Letter of Credit, LIBOR plus 2.0%, 6.224%, 3/26/2014	18,026	17,305
Term Loan B, LIBOR plus 2.0%, 6.224%, 3/26/2014	211,441	201,450
HCA, Inc., Term Loan A1, 6.83%, 11/18/2012	1,281,601	1,219,123
IASIS Healthcare LLC, 10.315%, 6/15/2014	400,653	377,615
Local TV on Satellite LLC, Term Loan B, LIBOR plus 2.25%, 6.474%, 5/7/2013	238,750	225,320
Longview Power LLC:		
Demand Draw, 7.125%, 4/1/2014	68,700	66,552
Letter of Credit, 7.125%, 4/1/2014	30,000	29,069
Term Loan B, 7.25%, 4/1/2014	90,000	87,225
Rail America, Inc., 7.81%, 10/2/2008	720,000	707,400
Sabre, Inc., Term Loan B, LIBOR plus 2.25%, 6.474%, 9/30/2014	412,595	376,015
Symbion, Inc.:		
Term Loan A, 8.21%, 8/23/2013	199,500	194,016
Term Loan B, 8.21%, 8/23/2014	199,500	193,266
Telesat Canada, Inc.:		
Term Loan B, LIBOR plus 3.0%, 7.224%, 10/31/2014	686,068	660,341
Term Loan B, LIBOR plus 3.0%, 7.224%, 10/31/2014	206,681	201,753
Term Loan B, LIBOR plus 3.0%, 7.224%, 10/31/2014	170,126	166,502
8.09%, 9/1/2014	177,124	172,192
9.0%, 10/31/2008	1,285,000	1,236,812
Tribune Co., Term Loan B, 8.244%, 5/24/2014	835,650	719,901
Total Senior Loans (Cost $18,782,677)		**17,576,228**

	Shares	Value ($)

Warrants 0.0%

	Shares	Value ($)
Dayton Superior Corp., 144A, Expiration Date 6/15/2009*	95	0
DeCrane Aircraft Holdings, Inc., 144A, Expiration Date 9/30/2008*	1,350	0
Total Warrants (Cost $1)		**0**

Other Investments 0.7%

	Units	Value ($)
Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029	1,100,000	929,500
IdleAire Technologies Corp. (Bond Unit), 144A, Step-up Coupon, 0% to 6/15/2008, 13.0% to 12/15/2012	1,735,000	954,250
Total Other Investments (Cost $2,347,542)		**1,883,750**

Common Stocks 0.0%

	Shares	Value ($)
GEO Specialty Chemicals, Inc. 144A*	2,206	1,875
GEO Specialty Chemicals, Inc.*	24,225	20,591
Total Common Stocks (Cost $290,952)		**22,466**

Preferred Stocks 0.0%

	Shares	Value ($)
ION Media Networks:		
Series AI, 144A, 12.0%*	30,000	1,815
Series B, 12.0%*	5,000	303
144A, 12.0%	3	18,150
Total Preferred Stocks (Cost $46,019)		**20,268**

Securities Lending Collateral 2.7%

	Shares	Value ($)
Daily Assets Fund Institutional, 5.03% (d) (e) (Cost $6,836,017)	6,836,017	**6,836,017**

Cash Equivalents 3.1%

	Shares	Value ($)
Cash Management QP Trust, 4.67% (d) (Cost $7,887,827)	7,887,827	**7,887,827**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $278,863,336)†	101.5	**261,313,926**
Other Assets and Liabilities, Net	(1.5)	**(3,836,662)**
Net Assets	100.0	**257,477,264**

* *Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or the interest or has filed for bankruptcy. The following table represents bonds that are in default:*

Securities	Coupon	Maturity Date	Principal Amount		Acquisition Cost ($)	Value ($)
Alliance Mortgage Cycle Loan	11.474%	6/4/2010	700,000	USD	700,000	70,000
Congoleum Corp.	8.625%	8/1/2008	1,200,000	USD	1,021,050	900,000
Radnor Holdings Corp.	11.0%	3/15/2010	265,000	USD	234,313	1,988
					1,955,363	**971,988**

† *The cost for federal income tax purposes was $278,930,380. At December 31, 2007, net unrealized depreciation for all securities based on tax cost was $17,616,454. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,513,264 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $19,129,718.*

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

** *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, 2007.*

(a) *Principal amount stated in US dollars unless otherwise noted.*

(b) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $6,535,627 which is 2.5% of net assets.*

(c) *Security has deferred interest payment of $92,407 from April 1, 2006.*

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

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

(f) *Security issued in lieu of interest payment due 12/15/2007, which has been deferred until 3/15/2008. This security is deemed to be non-income producing.*

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.

LIBOR: Represents the London InterBank Offered Rate.

PIK: Denotes that all or a portion of the income is paid in-kind.

At December 31, 2007, the Portfolio had unfunded loan commitments of $288,148 which could be extended at the option of the borrower, pursuant to the following loan agreement:

Borrower	**Unfunded Loan Commitment ($)**	**Value ($)**	**Unrealized Appreciation/ (Depreciation) ($)**
Bausch & Lomb, Inc., Term Delay Draw, 4/11/2015	163,795	163,590	(205)
Longview Power LLC, Term Delay Draw, 4/1/2014	34,394	35,166	772
Telesat Canada, Inc., Term Delay Draw, 9/1/2014	89,959	88,897	(1,062)
Total net unrealized depreciation	**288,148**	**287,653**	**(495)**

At December 31, 2007, open credit default swap contracts as follows:

Effective/ Expiration Date	**Notional Amount ($)**	**Cash Flows Received by the Fund**	**Underlying Debt Obligation**	**Unrealized Appreciation/ (Depreciation) ($)**
10/4/2007 12/20/2008	430,000[1]	Fixed — 3.1%	Ford Motor Co., 6.5%, 8/1/2008	(1,757)
10/5/2007 12/20/2008	255,000[2]	Fixed — 3.15%	Ford Motor Co., 6.5%, 8/1/2008	(913)
10/20/2007 12/20/2008	845,000[3]	Fixed — 3.5%	Ford Motor Co., 6.5%, 8/1/2008	(5,313)
10/23/2007 12/20/2009	485,000[4]	Fixed — 4.65%	Ford Motor Co., 6.5%, 8/1/2008	(5,809)
12/13/2007 12/20/2009	400,000[5]	Fixed — 5.05%	Ford Motor Co., 6.5%, 8/1/2008	(6,134)
10/3/2007 12/20/2008	430,000[2]	Fixed — 3.2%	General Motors Corp., 7.125%, 7/15/2013	(2,041)
10/4/2007 12/20/2008	450,000[6]	Fixed — 2.6%	General Motors Corp., 7.125%, 7/15/2013	(5,347)
10/20/2007 12/20/2008	845,000[3]	Fixed — 3.05%	General Motors Corp., 7.125%, 7/15/2013	(6,639)
11/21/2007 12/20/2008	430,000[5]	Fixed — 4.02%	Tenet Healthcare Corp., 7.375%, 2/1/2013	3,206
12/15/2007 12/20/2008	535,000[3]	Fixed — 2.9%	Tenet Healthcare Corp., 7.375%, 2/1/2013	(2,724)
Total net unrealized depreciation on credit default swaps				**(33,471)**

Counterparties:

1 *Goldman Sachs & Co.*

2 *JPMorgan Chase*

3 *Lehman Brothers, Inc.*

4 *Morgan Stanley Co., Inc.*

5 *Merrill Lynch, Pierce, Fenner & Smith, Inc.*

6 *Citigroup Global Markets, Inc.*

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

At December 31, 2006, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation US ($)
USD	251,939	EUR	175,400	1/3/2008	4,519
EUR	3,193,000	USD	4,747,097	1/3/2008	78,505
Total unrealized appreciation					**83,024**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation US ($)
EUR	3,056,225	USD	4,460,285	2/4/2008	(10,712)
Total unrealized depreciation					**(10,712)**

Currency Abbreviations

EUR	Euro	USD	United States Dollar

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $264,139,492) — including $6,535,627 of securities loaned	$ 246,590,082
Investment in Daily Assets Fund Institutional (cost $6,836,017)*	6,836,017
Investment in Cash Management QP Trust (cost $7,887,827)	7,887,827
Total investments, at value (cost $278,863,336)	261,313,926
Foreign currency, at value (cost $92)	93
Receivable for investments sold	1,202,836
Receivable for Portfolio shares sold	19,126
Interest receivable	5,272,810
Unrealized appreciation on credit default swap contracts	3,206
Unrealized appreciation on forward foreign currency exchange contracts	83,024
Net receivable on closed forward foreign currency exchange contracts	10,500
Foreign taxes recoverable	4,403
Other assets	3,867
Total assets	267,913,791

Liabilities	
Cash overdraft	23,894
Payable for investments purchased	2,912,386
Payable for Portfolio shares redeemed	259,448
Payable upon return of securities loaned	6,836,017
Unrealized depreciation on credit default swap contracts	36,677
Unrealized depreciation on forward foreign currency exchange contracts	10,712
Unrealized depreciation on unfunded loan commitments	495
Accrued management fee	134,168
Other accrued expenses and payables	222,730
Total liabilities	10,436,527
Net assets, at value	**$ 257,477,264**

Net Assets Consist of	
Undistributed net investment income	24,527,293
Net unrealized appreciation (depreciation) on: Investments	(17,549,410)
Credit default swap contracts	(33,471)
Unfunded loan commitments	(495)
Foreign currency	95,404
Accumulated net realized gain (loss)	(114,129,983)
Paid-in capital	364,567,926
Net assets, at value	**$ 257,477,264**
Class A	
Net Asset Value, offering and redemption price per share ($247,620,031 ÷ 31,702,335 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 7.81**
Class B	
Net Asset Value, offering and redemption price per share ($9,857,233 ÷ 1,262,331 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 7.81**

* *Represents collateral on securities loaned*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Interest (net of foreign taxes withheld of $1,020)	$ 27,053,362
Dividends	783
Interest — Cash Management QP Trust	346,939
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	92,076
Total Income	27,493,160
Expenses:	
Management fee	1,912,439
Custodian fee	26,546
Distribution service fee (Class B)	63,359
Services to shareholders	375
Record keeping fees (Class B)	32,137
Professional fees	122,770
Trustees' fees and expenses	25,304
Reports to shareholders	67,853
Other	70,183
Total expenses before expense reductions	2,320,966
Expense reductions	(6,820)
Total expenses after expense reductions	2,314,146
Net investment income (loss)	**25,179,014**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(1,846,396)
Credit default swaps	93,187
Foreign currency	(611,797)
	(2,365,006)
Change in net unrealized appreciation (depreciation) on:	
Investments	(17,335,877)
Credit default swap contracts	(137,249)
Unfunded loan commitments	(495)
Foreign currency	142,206
	(17,331,415)
Net gain (loss)	**(19,696,421)**
Net increase (decrease) in net assets resulting from operations	**$ 5,482,593**

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, 2007**	**2006**
Operations:		
Net investment income	$ 25,179,014	$ 29,073,209
Net realized gain (loss)	(2,365,006)	(4,241,151)
Change in net unrealized appreciation (depreciation)	(17,331,415)	12,833,965
Net increase (decrease) in net assets resulting from operations	5,482,593	37,666,023
Distributions to shareholders from:		
Net investment income:		
Class A	(24,698,902)	(26,233,542)
Class B	(3,765,571)	(4,096,501)
Total distributions	(28,464,473)	(30,330,043)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	39,622,315	42,074,123
Reinvestment of distributions	24,698,902	26,233,542
Cost of shares redeemed	(117,470,499)	(96,640,530)
Net increase (decrease) in net assets from Class A share transactions	(53,149,282)	(28,332,865)
Class B		
Proceeds from shares sold	3,273,156	8,449,167
Reinvestment of distributions	3,765,571	4,096,501
Cost of shares redeemed	(48,245,391)	(15,970,978)
Net increase (decrease) in net assets from Class B share transactions	(41,206,664)	(3,425,310)
Increase (decrease) in net assets	(117,337,826)	(24,422,195)
Net assets at beginning of period	374,815,090	399,237,285
Net assets at end of period (including undistributed net investment income of $24,527,293 and $28,104,439, respectively)	**$ 257,477,264**	**$ 374,815,090**

Other Information		
Class A		
Shares outstanding at beginning of period	38,357,993	41,769,600
Shares sold	4,945,319	5,241,451
Shares issued to shareholders in reinvestment of distributions	3,110,693	3,376,260
Shares redeemed	(14,711,670)	(12,029,318)
Net increase (decrease) in Class A shares	(6,655,658)	(3,411,607)
Shares outstanding at end of period	**31,702,335**	**38,357,993**
Class B		
Shares outstanding at beginning of period	6,354,214	6,770,189
Shares sold	397,938	1,037,633
Shares issued to shareholders in reinvestment of distributions	473,062	525,192
Shares redeemed	(5,962,883)	(1,978,800)
Net increase (decrease) in Class B shares	(5,091,883)	(415,975)
Shares outstanding at end of period	**1,262,331**	**6,354,214**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$ 8.38**	**$ 8.23**	**$ 8.78**	**$ 8.43**	**$ 7.40**
Income (loss) from investment operations:					
Net investment income[a]	.63	.62	.68	.67	.67
Net realized and unrealized gain (loss)	(.54)	.19	(.38)	.31	1.03
Total from investment operations	.09	.81	.30	.98	1.70
Less distributions from:					
Net investment income	(.66)	(.66)	(.85)	(.63)	(.67)
Net asset value, end of period	**$ 7.81**	**$ 8.38**	**$ 8.23**	**$ 8.78**	**$ 8.43**
Total Return (%)	.96	10.47	3.89	12.42	24.62
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	248	322	344	393	413
Ratio of expenses (%)	.69	.71	.70	.66	.67
Ratio of net investment income (%)	7.84	7.73	8.27	8.11	8.62
Portfolio turnover rate (%)	61	93	100	162	165

[a] *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$ 8.38**	**$ 8.22**	**$ 8.77**	**$ 8.41**	**$ 7.39**
Income (loss) from investment operations:					
Net investment income[a]	.60	.59	.65	.64	.64
Net realized and unrealized gain (loss)	(.54)	.20	(.39)	.32	1.03
Total from investment operations	.06	.79	.26	.96	1.67
Less distributions from:					
Net investment income	(.63)	(.63)	(.81)	(.60)	(.65)
Net asset value, end of period	**$ 7.81**	**$ 8.38**	**$ 8.22**	**$ 8.77**	**$ 8.41**
Total Return (%)	.54	10.11	3.41	12.08	24.14
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	10	53	56	57	37
Ratio of expenses (%)	1.08	1.10	1.10	1.06	1.06
Ratio of net investment income (%)	7.45	7.34	7.87	7.71	8.23
Portfolio turnover rate (%)	61	93	100	162	165

[a] *Based on average shares outstanding during the period.*

DWS International Select Equity VIP

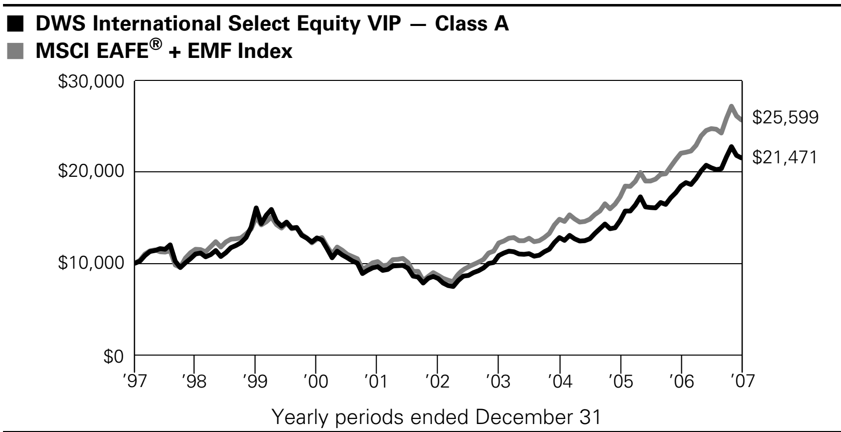
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .88% and 1.26% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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.

Please keep in mind that double-digit returns were primarily achieved during favorable market conditions. Investors should not expect that such favorable returns can be consistently achieved. A Portfolio's performance, especially for very short time periods should not be the sole factor in making your investment decision.

Growth of an Assumed $10,000 Investment in DWS International Select Equity VIP



The MSCI EAFE® + EMF Index (Morgan Stanley Capital International Europe, Australasia, Far East and Emerging Markets Free Index) is an unmanaged index generally accepted as a benchmark for major overseas markets plus emerging markets. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS International Select Equity VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,671	$16,781	$25,761	$21,471
	Average annual total return	16.71%	18.83%	20.84%	7.94%
MSCI EAFE + EMF Index	Growth of $10,000	$11,631	$17,297	$29,514	$25,599
	Average annual total return	16.31%	20.04%	24.17%	9.86%

DWS International Select Equity VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$11,620	$16,565	$25,264	$22,338
	Average annual total return	16.20%	18.32%	20.36%	15.73%
MSCI EAFE + EMF Index	Growth of $10,000	$11,631	$17,297	$29,514	$25,404
	Average annual total return	16.31%	20.04%	24.17%	18.47%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS International Select Equity VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,052.10	$1,049.70
Expenses Paid per $1,000*	$ 4.76	$ 6.82

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,020.57	$1,018.55
Expenses Paid per $1,000*	$ 4.69	$ 6.72

* *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
DWS Variable Series II — DWS International Select Equity VIP	.92%	1.32%

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

These tables do not 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.

DWS International Select Equity VIP

International equities — as measured by the US dollar return of the fund's benchmark, the MSCI EAFE® + EMF Index — gained 16.31% during the past year. The Portfolio's Class A shares (unadjusted for contract charges) outpaced the benchmark with a total return of 16.71%.

The Portfolio's performance was helped by its geographic weightings. Overweights in Europe and the emerging markets — both of which outperformed — and a substantial underweight in Japan, the worst performer among the major global markets, all proved beneficial to returns.[1] In terms of individual holdings, the top performer was AMEC PLC, a UK-based construction and engineering company. Also helping performance were positions in Gazprom, the Russian energy concern; China Mobile*, a Hong-Kong based stock that benefited from rising wireless penetration in China; and the German stocks Bayer AG, Porsche AG, and E.ON AG. Detractors included two Italian banks, UniCredito Italiano and Banca Italease*, along with positions in several Japanese banks.

Expecting that 2008 will be a challenging year characterized by slower growth in the developed world, we intend to maintain a focus on companies with the ability to outperform in any economic environment. We have found a number of such companies in the emerging markets, particularly Russia, the Middle East, and Africa. At the same time, we have cut the Portfolio's weighting in Europe and have chosen not to raise its weighting in Japan. Overall, we intend to use bottom-up, individual company research to identify opportunities in stocks that we believe have been artificially depressed by volatility in the broader markets.

Matthias Knerr, CFA

Portfolio Manager
Deutsche Investment Management Americas Inc.

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 + EMF Index (Morgan Stanley Capital International Europe, Australasia, Far East and Emerging Markets Free Index) is an unmanaged index generally accepted as a benchmark for major overseas markets plus emerging markets. The index is calculated using closing local market prices and translates into 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.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

* *As of December 31, 2007, the positions were not held.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS International Select Equity VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	94%	94%
Cash Equivalents	3%	3%
Preferred Stocks	3%	3%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/07**	**12/31/06**
Continental Europe	52%	56%
Japan	15%	20%
United Kingdom	12%	15%
Asia (excluding Japan)	9%	3%
Russia	4%	—
Latin America	2%	6%
Australia	2%	—
Africa	2%	—
Middle East	2%	—
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/07**	**12/31/06**
Financials	23%	30%
Industrials	18%	9%
Consumer Discretionary	16%	17%
Materials	9%	5%
Consumer Staples	7%	5%
Telecommunications Services	6%	6%
Utilities	6%	2%
Information Technology	5%	8%
Energy	5%	6%
Health Care	5%	12%
	100%	100%

Asset allocation, geographical and sector diversifications are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 118. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

DWS International Select Equity VIP

	Shares	Value ($)
Common Stocks 92.9%		
Australia 1.9%		
Leighton Holdings Ltd. (a) (Cost $3,440,762)	92,200	**4,915,356**
Austria 2.5%		
Erste Bank der oesterreichischen Sparkassen AG	35,600	2,530,265
Wienerberger AG	67,571	3,732,623
(Cost $6,356,276)		**6,262,888**
Belgium 5.3%		
Fortis	133,351	3,465,421
InBev NV	66,800	5,510,872
KBC Groep NV	31,000	4,329,640
(Cost $13,633,980)		**13,305,933**
Cyprus 1.7%		
Bank of Cyprus PCL (Cost $3,907,310)	229,684	**4,215,124**
Egypt 2.3%		
Orascom Construction Industries (GDR) (REG S) (Cost $4,916,404)	27,300	**5,717,137**
Finland 3.8%		
Nokia Oyj	88,800	3,419,195
Nokian Renkaat Oyj	176,100	6,134,459
(Cost $6,635,124)		**9,553,654**
Germany 11.7%		
Bayer AG	65,411	5,963,817
Daimler AG (Registered)	26,300	2,547,479
E.ON AG	23,338	4,955,260
GEA Group AG*	68,799	2,376,198
Gerresheimer AG*	63,260	3,514,444
Hamburger Hafen- und Logistik AG*	7,400	659,969
Linde AG	31,300	4,122,392
Siemens AG (Registered)	33,100	5,196,346
(Cost $20,478,356)		**29,335,905**
Greece 2.2%		
National Bank of Greece SA (Cost $3,466,651)	81,800	**5,634,974**
Hong Kong 3.8%		
Esprit Holdings Ltd.	445,000	6,590,867
Wharf Holdings Ltd.	587,000	3,029,721
(Cost $8,205,195)		**9,620,588**
India 2.3%		
Bharti Airtel Ltd.*	202,380	5,054,054
Suzlon Energy Ltd.	12,745	626,185
(Cost $5,425,307)		**5,680,239**
Italy 2.1%		
UniCredito Italiano SpA (Cost $4,725,250)	625,200	**5,203,195**
Japan 14.3%		
Canon, Inc.	113,400	5,181,282
Japan Tobacco, Inc.	1,347	7,986,917
Komatsu Ltd.	121,000	3,271,601
Mitsubishi Corp.	135,200	3,682,724
Mitsui Fudosan Co., Ltd.	107,000	2,312,477
Nintendo Co., Ltd.	7,000	4,250,034
Sumitomo Heavy Industries Ltd.	374,000	3,436,260
Suzuki Motor Corp.	195,000	5,864,767
(Cost $32,809,671)		**35,986,062**
Kazakhstan 1.1%		
KazMunaiGas Exploration Production (GDR) 144A (Cost $1,563,746)	92,700	**2,873,700**
Korea 1.6%		
Kookmin Bank (Cost $3,941,687)	55,300	**4,064,600**
Mexico 2.2%		
Empresas ICA SAB de CV*	284,500	1,876,543
Grupo Financiero Banorte SAB de CV "O"	860,400	3,555,340
(Cost $5,071,912)		**5,431,883**
Norway 1.9%		
StatoilHydro ASA (Cost $4,176,184)	151,400	**4,681,167**
Russia 3.7%		
Gazprom (ADR) (b)	72,500	4,082,608
Gazprom (ADR) (b)	17,250	978,075
Novorossiysk Sea Trade Port (GDR) 144A*	45,300	906,000
Sberbank*	778,621	3,248,868
(Cost $7,796,535)		**9,215,551**
Spain 7.6%		
Iberdrola Renovables*	495,100	4,089,815
Iberdrola SA	276,912	4,191,918
Industria de Diseno Textil SA	40,900	2,486,800
Telefonica SA	258,858	8,365,568
(Cost $16,038,776)		**19,134,101**
Switzerland 8.7%		
Compagnie Financiere Richemont SA"A" (Unit)	81,839	5,583,416
Lonza Group AG (Registered)	34,055	4,096,196
Nestle SA (Registered)	8,399	3,848,536
Roche Holding AG (Genusschein)	17,867	3,077,615
Xstrata PLC	74,837	5,269,750
(Cost $16,714,214)		**21,875,513**
United Arab Emirates 1.0%		
DP World Ltd.*	634,685	755,275
Emaar Properties	413,575	1,677,903
(Cost $2,206,498)		**2,433,178**
United Kingdom 11.2%		
3i Group PLC	270,286	5,371,680
AMEC PLC	596,905	9,901,240
Greene King PLC	71,674	1,132,595
Intertek Group PLC	134,524	2,637,468
Prudential PLC	234,314	3,293,605
Standard Chartered PLC	113,352	4,116,575
Whitbread PLC	57,170	1,584,484
(Cost $24,107,582)		**28,037,647**
Total Common Stocks (Cost $195,617,420)		**233,178,395**

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

	Shares	Value ($)
Preferred Stocks 2.7%		
Germany		
Porsche AG (Cost $4,915,857)	3,394	**6,839,574**
Rights 0.0%		
Hong Kong		
Wharf Holdings Ltd.* (Cost $0)	73,375	**100,689**

	Shares	Value ($)
Securities Lending Collateral 1.8%		
Daily Assets Fund Institutional, 5.03% (c) (d) (Cost $4,512,760)	4,512,760	**4,512,760**
Cash Equivalents 2.9%		
Cash Management QP Trust, 4.67% (c) (Cost $7,233,361)	7,233,361	**7,233,361**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $212,279,398)†	100.3	**251,864,779**
Other Assets and Liabilities, Net	(0.3)	**(894,976)**
Net Assets	100.0	**250,969,803**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $213,125,813. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $38,738,966. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $45,362,993 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,624,027.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $4,266,079 which is 1.7% of net assets.*

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

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

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

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

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $200,533,277) — including $4,266,079 of securities loaned	$ 240,118,658
Investment in Daily Assets Fund Institutional (cost $4,512,760)*	4,512,760
Investment in Cash Management QP Trust (cost $7,233,361)	7,233,361
Total investments, at value (cost $212,279,398)	251,864,779
Cash	1,540
Foreign currency, at value (cost $1,158,802)	1,147,650
Receivable for investments sold	2,614,217
Dividends receivable	201,807
Interest receivable	34,350
Foreign taxes recoverable	145,176
Receivable for Fund shares sold	40,519
Other assets	5,799
Total assets	256,055,837
Liabilities	
Payable for investments purchased	51,660
Payable for Portfolio shares redeemed	178,171
Payable upon return of securities loaned	4,512,760
Deferred foreign taxes payable	15,499
Accrued management fee	173,479
Other accrued expenses and payables	154,465
Total liabilities	5,086,034
Net assets, at value	**$ 250,969,803**
Net Assets Consist of	
Undistributed net investment income	1,838,472
Net unrealized appreciation (depreciation) on:	
Investments (net of deferred foreign taxes of $15,499)	39,569,882
Foreign currency	16,142
Accumulated net realized gain (loss)	57,738,101
Paid-in capital	151,807,206
Net assets, at value	**$ 250,969,803**
Class A	
Net Asset Value, offering and redemption price per share ($235,725,197 ÷ 14,064,172 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 16.76**
Class B	
Net Asset Value, offering and redemption price per share ($15,244,606 ÷ 912,661 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 16.70**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $481,103)	$ 6,112,342
Interest	39,823
Interest — Cash Management QP Trust	209,155
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	221,729
Total Income	6,583,049
Expenses:	
Management fee	2,007,490
Custodian fee	208,017
Distribution service fee (Class B)	87,237
Services to shareholders	351
Record keeping fees (Class B)	41,675
Professional fees	79,253
Trustees' fees and expenses	26,594
Reports to shareholders	110,069
Other	56,720
Total expenses before expense reductions	2,617,406
Expense reductions	(4,657)
Total expenses after expense reductions	2,612,749
Net investment income (loss)	**3,970,300**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments (net of foreign taxes of $5,992)	62,632,767
Foreign currency	(141,571)
	62,491,196
Change in net unrealized appreciation (depreciation) on:	
Investments	(23,085,352)
Foreign currency	(1,766)
	(23,087,118)
Net gain (loss) on investment transactions	**39,404,078**
Net increase (decrease) in net assets resulting from operations	**$ 43,374,378**

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, 2007 2007	2006
Operations:		
Net investment income (loss)	$ 3,970,300	$ 4,337,404
Net realized gain (loss)	62,491,196	51,728,515
Change in net unrealized appreciation (depreciation)	(23,087,118)	6,810,936
Net increase (decrease) in net assets resulting from operations	43,374,378	62,876,855
Distributions to shareholders from:		
Net investment income:		
Class A	(6,153,181)	(4,319,400)
Class B	(1,706,211)	(1,106,261)
Net realized gains:		
Class A	(21,172,091)	—
Class B	(6,853,490)	—
Total distributions	(35,884,973)	(5,425,661)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	26,016,717	19,462,653
Reinvestment of distributions	27,325,272	4,319,400
Cost of shares redeemed	(48,603,167)	(40,279,711)
Net increase (decrease) in net assets from Class A share transactions	4,738,822	(16,497,658)
Class B		
Proceeds from shares sold	3,741,916	6,691,885
Reinvestment of distributions	8,559,701	1,106,261
Cost of shares redeemed	(69,011,239)	(11,527,517)
Net increase (decrease) in net assets from Class B share transactions	(56,709,622)	(3,729,371)
Increase (decrease) in net assets	(44,481,395)	37,224,165
Net assets at beginning of period	295,451,198	258,227,033
Net assets at end of period (including undistributed net investment income of $1,838,472 and $1,329,997, respectively)	**$ 250,969,803**	**$ 295,451,198**

Other Information		
Class A		
Shares outstanding at beginning of period	13,653,834	14,778,650
Shares sold	1,594,102	1,353,025
Shares issued to shareholders in reinvestment of distributions	1,820,471	298,301
Shares redeemed	(3,004,235)	(2,776,142)
Net increase (decrease) in Class A shares	410,338	(1,124,816)
Shares outstanding at end of period	**14,064,172**	**13,653,834**
Class B		
Shares outstanding at beginning of period	4,475,081	4,725,198
Shares sold	229,248	460,794
Shares issued to shareholders in reinvestment of distributions	570,267	76,399
Shares redeemed	(4,361,935)	(787,310)
Net increase (decrease) in Class B shares	(3,562,420)	(250,117)
Shares outstanding at end of period	**912,661**	**4,475,081**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$16.31**	**$13.25**	**$11.91**	**$10.18**	**$ 7.96**
Income (loss) from investment operations:					
Net investment income[a]	.25	.24[b]	.20	.17	.10
Net realized and unrealized gain (loss)	2.24	3.11	1.48	1.67	2.23
Total from investment operations	2.49	3.35	1.68	1.84	2.33
Less distributions from:					
Net investment income	(.46)	(.29)	(.34)	(.11)	(.11)
Net realized gains	(1.58)	—	—	—	—
Total distributions	(2.04)	(.29)	(.34)	(.11)	(.11)
Net asset value, end of period	**$16.76**	**$16.31**	**$13.25**	**$11.91**	**$10.18**
Total Return (%)	16.71	25.56	14.51	18.25	29.83
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	236	223	196	184	147
Ratio of expenses (%)	.93	.88	.87	.89	.94
Ratio of net investment income (%)	1.53	1.65[b]	1.59	1.58	1.17
Portfolio turnover rate (%)	117	122	93	88	139

a *Based on average shares outstanding during the period.*

b *Net investment income per share and the ratio of net investment income without non-recurring dividend income amounting to $0.20 per share and 1.39% of average daily net assets, respectively.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$16.26**	**$13.21**	**$11.88**	**$10.15**	**$ 7.94**
Income (loss) from investment operations:					
Net investment income[a]	.19	.19[b]	.15	.13	.06
Net realized and unrealized gain (loss)	2.22	3.09	1.47	1.67	2.24
Total from investment operations	2.41	3.28	1.62	1.80	2.30
Less distributions from:					
Net investment income	(.39)	(.23)	(.29)	(.07)	(.09)
Net realized gains	(1.58)	—	—	—	—
Total distributions	(1.97)	(.23)	(.29)	(.07)	(.09)
Net asset value, end of period	**$16.70**	**$16.26**	**$13.21**	**$11.88**	**$10.15**
Total Return (%)	16.20	25.06	14.00	17.84	29.42
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	15	73	62	47	18
Ratio of expenses (%)	1.30	1.26	1.26	1.28	1.33
Ratio of net investment income (%)	1.16	1.27[b]	1.20	1.19	.78
Portfolio turnover rate (%)	117	122	93	88	139

a *Based on average shares outstanding during the period.*

b *Net investment income per share and the ratio of net investment income without non-recurring dividend income amounting to $0.15 per share and 1.01% of average daily net assets, respectively.*

Performance Summary

December 31, 2007

DWS Janus Growth & Income VIP

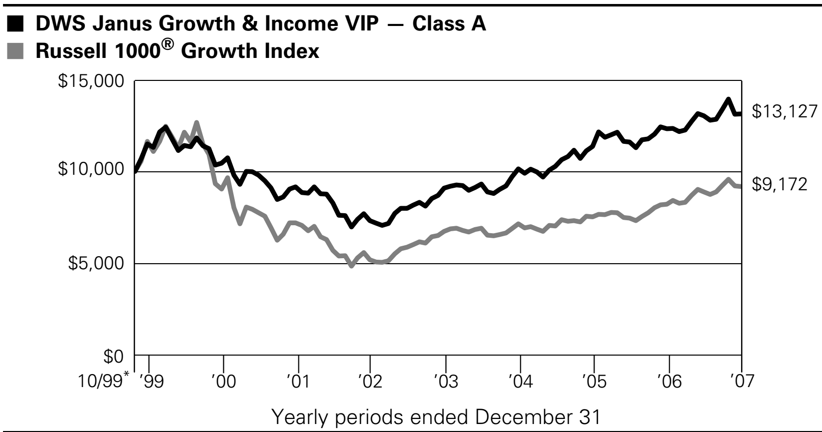
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .85% and 1.24% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the year ended December 31, 2007.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the Portfolio, can decline and the investor can lose principal value. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for the 3-year, 5-year and Life of Class periods for Class B shares reflect a waiver and/or expense reimbursement. Without this waiver/reimbursement, returns for Class B shares would have been lower.

Growth of an Assumed $10,000 Investment in DWS Janus Growth & Income VIP from 10/29/1999 to 12/31/2007



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 dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Janus Growth & Income VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$10,659	$12,958	$17,971	$13,127
	Average annual total return	6.59%	9.02%	12.44%	3.39%
Russell 1000 Growth Index	Growth of $10,000	$11,181	$12,838	$17,706	$9,172
	Average annual total return	11.81%	8.68%	12.11%	–1.05%

DWS Janus Growth & Income VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$10,622	$12,813	$17,642	$15,891
	Average annual total return	6.22%	8.61%	12.02%	8.79%
Russell 1000 Growth Index	Growth of $10,000	$11,181	$12,838	$17,706	$16,118
	Average annual total return	11.81%	8.68%	12.11%	9.07%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations October 29, 1999. Index returns began on 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 began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Janus Growth & Income VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,008.00	$1,005.60
Expenses Paid per $1,000*	$ 4.56	$ 6.72
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,020.67	$1,018.50
Expenses Paid per $1,000*	$ 4.58	$ 6.77

* *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**
DWS Variable Series II — DWS Janus Growth & Income VIP	.90%	1.33%

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

These tables do not 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.

DWS Janus Growth & Income VIP

For the 12 months ended December 31, 2007, the Portfolio's Class A shares (unadjusted for contract charges) returned 6.59%, while its benchmark, the Russell 1000® Growth Index, returned 11.81%.

Holdings within the financials and technology sectors were the main laggards during the period. Select materials holdings, as well as an underweight to the group as a whole, further pressured relative results.[1]

In terms of positive contributors, select energy holdings coupled with a significant overweight to the sector drove performance during the period. Certain industrials holdings also aided returns.

E*TRADE Financial Corp. was the largest detractor from performance. We initiated a position in E*TRADE due to its growth prospects in the on-line brokerage industry. However, the company recently disclosed greater-than-expected losses in its mortgage portfolio, stemming from the recent subprime credit meltdown. We sold the position. The Portfolio's holding in Advanced Micro Devices (AMD) was another detractor. The company was forced to pare back its ambitious plan to gain market share when it became evident that rival Intel would successfully defend its market position through its balance sheet and manufacturing capacity. Intel proved better prepared to weather margin pressure from the ensuing price war, resulting in a setback for AMD. As such we chose to exit the position.

Suntech Power Holdings Co. was one of the top contributors to performance for the year. The company, which manufactures photovoltaic (PV) cells and modules for electricity generation, has been experiencing rapid sales growth as solar power becomes an attractive alternative energy source. We believe that Suntech should continue to benefit from its scale and price advantage as the industry expands. Hess Corp. also made a positive contribution to performance for the year. The company benefited from the rising price of oil during 2007 and increased appreciation for the future production potential from Hess' new projects, including deep water projects in the Gulf of Mexico and off the coast of Brazil. We believe that Hess remains undervalued given the potential reserves in these projects.

In closing, effective November 7, 2007, there was a change in management for the DWS Janus Growth & Income Portfolio. Under the new leadership, the Portfolio will continue to employ the same investment processes and leverage the same in-depth, fundamental analysis and company-by-company approach to portfolio construction that are hallmarks of Janus' research process.

Marc Pinto, CFA
Portfolio Manager

Janus Capital Management LLC, Subadvisor to the Portfolio

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the Portfolio, can decline and the investor can lose principal value. 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 reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Janus Growth & Income VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	95%	98%
Participatory Notes	2%	—
Cash Equivalents	1%	2%
Equity Linked Structured Notes	1%	—
Preferred Stocks	1%	—
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/07**	**12/31/06**
Information Technology	25%	25%
Energy	16%	18%
Consumer Staples	14%	8%
Consumer Discretionary	14%	17%
Health Care	11%	11%
Financials	10%	12%
Industrials	8%	9%
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 127. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS Janus Growth & Income VIP

	Shares	Value ($)
Common Stocks 94.9%		
Consumer Discretionary 13.1%		
Hotels Restaurants & Leisure 2.4%		
Melco PBL Entertainment (Macau) Ltd. (ADR)*	248,720	2,875,203
Starwood Hotels & Resorts Worldwide, Inc.	29,880	1,315,617
		4,190,820
Household Durables 0.4%		
Sony Corp. (ADR)	12,465	**676,849**
Internet & Catalog Retail 0.3%		
Liberty Media Corp. — Interactive "A"* (a)	25,095	**478,813**
Media 4.8%		
British Sky Broadcasting Group PLC	292,006	3,579,515
Comcast Corp. "A"*	22,770	415,780
Lamar Advertising Co. "A" (a)	32,140	1,544,970
Marvel Entertainment, Inc.* (a)	58,302	1,557,246
News Corp. "B" (a)	54,275	1,153,344
		8,250,855
Multiline Retail 1.4%		
Nordstrom, Inc. (a)	67,155	**2,466,603**
Specialty Retail 3.3%		
Best Buy Co., Inc. (a)	22,315	1,174,885
Esprit Holdings Ltd.	87,180	1,291,217
PETsMART, Inc. (a)	48,210	1,134,381
Tiffany & Co. (a)	47,195	2,172,386
		5,772,869
Textiles, Apparel & Luxury Goods 0.5%		
NIKE, Inc. "B"	12,450	**799,788**
Consumer Staples 13.9%		
Beverages 1.6%		
InBev NV	24,880	2,052,553
The Coca-Cola Co.	12,465	764,977
		2,817,530
Food & Staples Retailing 2.9%		
CVS Caremark Corp.	127,510	**5,068,523**
Food Products 3.4%		
Archer-Daniels-Midland Co.	14,515	673,931
Nestle SA (ADR) (Registered)	19,905	2,283,601
Nestle SA (Registered)	4,950	2,268,158
TreeHouse Foods, Inc.* (a)	31,295	719,472
		5,945,162
Household Products 3.1%		
Procter & Gamble Co.	52,960	3,888,323
Reckitt Benckiser Group PLC	25,098	1,449,884
		5,338,207
Personal Products 0.9%		
Avon Products, Inc.	37,425	**1,479,410**
Tobacco 2.0%		
Altria Group, Inc.	46,045	**3,480,081**

	Shares	Value ($)
Energy 14.9%		
Energy Equipment & Services 1.1%		
Halliburton Co.	49,380	**1,871,996**
Oil, Gas & Consumable Fuels 13.8%		
EnCana Corp.	69,328	4,711,531
EOG Resources, Inc. (a)	15,520	1,385,160
ExxonMobil Corp.	47,945	4,491,967
Hess Corp.	62,544	6,308,188
Suncor Energy, Inc.	38,033	4,158,408
Valero Energy Corp.	42,390	2,968,572
		24,023,826
Financials 9.3%		
Capital Markets 2.6%		
Goldman Sachs Group, Inc.	21,170	**4,552,608**
Consumer Finance 2.2%		
American Express Co.	74,850	**3,893,697**
Diversified Financial Services 1.9%		
JPMorgan Chase & Co.	74,595	**3,256,072**
Real Estate Management & Development 0.5%		
Hang Lung Properties Ltd.	184,725	**847,049**
Thrifts & Mortgage Finance 2.1%		
Fannie Mae	90,215	**3,606,796**
Health Care 10.3%		
Biotechnology 1.5%		
Celgene Corp.* (a)	12,505	577,856
Genentech, Inc.*	31,535	2,115,052
		2,692,908
Health Care Equipment & Supplies 2.7%		
Alcon, Inc.	12,530	1,792,291
Align Technology, Inc.* (a)	41,870	698,392
Medtronic, Inc.	23,660	1,189,388
Nobel Biocare Holding AG (Bearer)	3,745	990,693
		4,670,764
Health Care Providers & Services 2.3%		
Coventry Health Care, Inc.* (a)	38,370	2,273,422
Pediatrix Medical Group, Inc.*	24,040	1,638,326
		3,911,748
Pharmaceuticals 3.8%		
Merck & Co., Inc.	50,325	2,924,386
Roche Holding AG (Genusschein)	16,941	2,918,110
Wyeth	18,835	832,319
		6,674,815
Industrials 7.3%		
Aerospace & Defense 2.7%		
BAE Systems PLC (ADR) (a)	30,000	1,185,750
Boeing Co.	21,700	1,897,882
Empresa Brasiliera de Aeronautica SA (ADR)	35,993	1,640,921
		4,724,553
Air Freight & Logistics 0.5%		
United Parcel Service, Inc. "B"	11,695	**827,070**

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

	Shares	Value ($)
Electrical Equipment 1.2%		
JA Solar Holdings Co., Ltd. (ADR)*	4,700	328,107
Suntech Power Holdings Co., Ltd. (ADR)* (a)	22,237	1,830,550
		2,158,657
Industrial Conglomerates 2.0%		
General Electric Co.	91,800	**3,403,026**
Machinery 0.9%		
Caterpillar, Inc. (a)	12,525	908,814
Watts Water Technologies, Inc. "A" (a)	18,880	562,624
		1,471,438
Information Technology 23.5%		
Communications Equipment 3.5%		
Corning, Inc.	64,485	1,546,995
Nokia Oyj (ADR)	78,398	3,009,699
QUALCOMM, Inc.	39,185	1,541,930
		6,098,624
Computers & Peripherals 3.2%		
Dell, Inc.*	74,615	1,828,814
EMC Corp.*	206,440	3,825,333
		5,654,147
Internet Software & Services 6.1%		
eBay, Inc.*	69,925	2,320,811
Google, Inc. "A"*	7,884	5,451,628
Yahoo!, Inc.*	118,255	2,750,611
		10,523,050
IT Services 2.1%		
Infosys Technologies Ltd. (ADR) (a)	27,424	1,243,953
Satyam Computer Services Ltd. (ADR) (a)	27,424	732,769
Western Union Co.	67,775	1,645,577
		3,622,299
Semiconductors & Semiconductor Equipment 6.3%		
ASML Holding NV (NY Registered Shares)* (a)	57,272	1,792,041
KLA-Tencor Corp. (a)	32,210	1,551,234
Samsung Electronics Co., Ltd. (GDR) 144A	9,834	2,878,903
SiRF Technology Holdings, Inc.* (a)	71,055	1,785,612
Spansion, Inc. "A"* (a)	74,575	293,080
Texas Instruments, Inc.	78,495	2,621,733
		10,922,603
Software 2.3%		
Electronic Arts, Inc.*	33,635	1,964,620
Oracle Corp.*	87,180	1,968,525
		3,933,145
Materials 1.5%		
Chemicals 1.0%		
Syngenta AG (ADR) (a)	33,680	**1,706,229**
Paper & Forest Products 0.5%		
Weyerhaeuser Co.	11,845	**873,450**

	Shares	Value ($)
Telecommunication Services 0.3%		
Wireless Telecommunication Services		
American Tower Corp. "A"*	13,855	**590,223**
Utilities 0.8%		
Water Utilities		
American States Water Co. (a)	13,450	506,796
Aqua America, Inc. (a)	25,600	542,720
California Water Service Group (a)	10,110	374,272
		1,423,788
Total Common Stocks (Cost $130,574,574)		**164,700,091**

Participatory Notes 1.5%

	Shares	Value ($)
Apple, Inc. (Issuer Merrill Lynch International & Co.), Expiration Date 3/20/2008 (Cost $2,274,800)	15,824	**2,631,056**

Preferred Stocks 0.7%

	Shares	Value ($)
Fannie Mae, 8.25%	25,055	645,166
Freddie Mac, Series Z, 8.375%	19,750	516,463
Total Preferred Stocks (Cost $1,138,939)		**1,161,629**

Equity Linked Structured Notes 1.0%

Financials

	Shares	Value ($)
Capital Markets		
Lehman Brothers Holdings, Inc., Convertible (Corning, Inc.) 144A, 10.55%	62,039	1,492,038
UBS AG Jersey, Convertible (Celgene Corp., E*Trade Financial Corp., and Marvell Technology Group Ltd.) Series 4934, 144A, 37.0%	1,683	306,609
Total Equity Linked Structured Notes (Cost $3,215,363)		**1,798,647**

Securities Lending Collateral 11.9%

	Shares	Value ($)
Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $20,744,793)	20,744,793	**20,744,793**

Cash Equivalents 1.5%

	Shares	Value ($)
Cash Management QP Trust, 4.67% (b) (Cost $2,526,845)	2,526,845	**2,526,845**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $160,475,314)†	111.5	**193,563,061**
Other Assets and Liabilities, Net	(11.5)	**(20,015,170)**
Net Assets	100.0	**173,547,891**

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

* *Non-income producing security.*

† *The cost for federal income tax purposes was $160,972,495. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $32,590,566. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $39,378,352 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,787,786.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $20,160,014 which is 11.6% of net assets.*

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

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

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

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

At December 31, 2007, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
CHF	1,355,000	USD	1,238,121	5/2/2008	33,567
EUR	915,000	USD	1,358,592	5/2/2008	20,064
Total unrealized appreciation					**53,631**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
CHF	925,000	USD	777,520	2/15/2008	(41,796)
EUR	200,000	USD	284,195	5/14/2008	(8,362)
Total unrealized depreciation					**(50,158)**

Currency Abbreviations

CHF	Swiss Franc	USD	United States Dollar
EUR	Euro		

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $137,203,676) — including $20,160,014 of securities loaned	$ 170,291,423
Investments in Daily Asset Fund Institutional, (cost $20,744,793)*	20,744,793
Investment in Cash Management QP Trust (cost $2,526,845)	2,526,845
Total investments, at value (cost $160,475,314)	193,563,061
Cash	22,479
Foreign currency, at value (cost $274,991)	275,106
Receivable for investments sold	586,207
Dividends receivable	152,698
Interest receivable	24,821
Foreign taxes recoverable	775
Unrealized appreciation on forward foreign currency exchange contracts	53,631
Other assets	4,679
Total assets	194,683,457
Liabilities	
Payable upon return of securities loaned	20,744,793
Payable for Portfolio shares redeemed	116,424
Unrealized depreciation on forward foreign currency exchange contracts	50,158
Accrued management fee	104,922
Other accrued expenses and payables	119,269
Total liabilities	21,135,566
Net assets, at value	**$ 173,547,891**
Net Assets Consist of	
Undistributed net investment income	1,499,729
Net unrealized appreciation (depreciation) on:	
Investments	33,087,747
Foreign currency	3,649
Accumulated net realized gain (loss)	10,567,574
Paid-in capital	128,389,192
Net assets, at value	**$ 173,547,891**
Class A	
Net Asset Value, offering and redemption price per share ($168,623,371 ÷ 13,362,156 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.62**
Class B	
Net Asset Value, offering and redemption price per share ($4,924,520 ÷ 392,971 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.53**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $72,457)	$ 3,312,775
Interest — Cash Management QP Trust	126,341
Interest (net of foreign taxes withheld of $25)	68,679
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	104,628
Total Income	3,612,423
Expenses:	
Management fee	1,474,026
Services to shareholders	334
Custodian and accounting fees	108,430
Distribution service fee (Class B)	34,879
Record keeping fees (Class B)	18,352
Professional fees	66,912
Trustees' fees and expenses	28,670
Reports to shareholders	68,708
Other	34,043
Total expenses before expense reductions	1,834,354
Expense reductions	(5,212)
Total expenses after expense reductions	1,829,142
Net investment income (loss)	**1,783,281**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	26,483,132
Foreign currency	(324,614)
	26,158,518
Change in net unrealized appreciation (depreciation) on:	
Investments	(14,727,191)
Foreign currency	75,032
	(14,652,159)
Net gain (loss)	**11,506,359**
Net increase (decrease) in net assets resulting from operations	**$ 13,289,640**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 1,783,281	$ 1,426,682
Net realized gain (loss)	26,158,518	26,044,260
Change in net unrealized appreciation (depreciation)	(14,652,159)	(9,385,310)
Net increase (decrease) in net assets resulting from operations	13,289,640	18,085,632
Distributions to shareholders from:		
Net investment income:		
Class A	(1,085,636)	(1,244,972)
Class B	(60,241)	(74,570)
Total distributions	(1,145,877)	(1,319,542)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	3,234,514	11,754,230
Reinvestment of distributions	1,085,636	1,244,972
Cost of shares redeemed	(39,897,035)	(28,913,722)
Net increase (decrease) in net assets from Class A share transactions	(35,576,885)	(15,914,520)
Class B		
Proceeds from shares sold	923,888	2,861,992
Reinvestment of distributions	60,241	74,570
Cost of shares redeemed	(29,091,879)	(6,002,097)
Net increase (decrease) in net assets from Class B share transactions	(28,107,750)	(3,065,535)
Increase (decrease) in net assets	(51,540,872)	(2,213,965)
Net assets at beginning of period	225,088,763	227,302,728
Net assets at end of period (including undistributed net investment income of $1,499,729 and $1,186,939, respectively)	**$ 173,547,891**	**$ 225,088,763**

Other Information	2007	2006
Class A		
Shares outstanding at beginning of period	16,236,105	17,645,394
Shares sold	261,428	1,022,138
Shares issued to shareholders in reinvestment of distributions	92,159	107,325
Shares redeemed	(3,227,536)	(2,538,752)
Net increase (decrease) in Class A shares	(2,873,949)	(1,409,289)
Shares outstanding at end of period	**13,362,156**	**16,236,105**
Class B		
Shares outstanding at beginning of period	2,676,871	2,946,169
Shares sold	77,171	250,333
Shares issued to shareholders in reinvestment of distributions	5,135	6,456
Shares redeemed	(2,366,206)	(526,087)
Net increase (decrease) in Class B shares	(2,283,900)	(269,298)
Shares outstanding at end of period	**392,971**	**2,676,871**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$11.91**	**$11.05**	**$ 9.88**	**$ 8.86**	**$ 7.18**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.12	.07	.05	.03	.03
Net realized and unrealized gain (loss)	.66	.86	1.14	.99	1.71
Total from investment operations	.78	.93	1.19	1.02	1.74
Less distributions from:					
Net investment income	(.07)	(.07)	(.02)	—	(.06)
Net asset value, end of period	**$12.62**	**$11.91**	**$11.05**	**$ 9.88**	**$ 8.86**
Total Return (%)	6.59	8.43	12.11	11.51	24.37
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	169	193	195	187	189
Ratio of expenses (%)	.90	.85	.92	1.06	1.07
Ratio of net investment income (loss) (%)	.93	.68	.45	.34	.40
Portfolio turnover rate (%)	73	44	32	52	46

a *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$11.82**	**$10.97**	**$ 9.82**	**$ 8.84**	**$ 7.17**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.07	.03	.01	(.01)	.00*
Net realized and unrealized gain (loss)	.66	.85	1.14	.99	1.71
Total from investment operations	.73	.88	1.15	.98	1.71
Less distributions from:					
Net investment income	(.02)	(.03)	—	—	(.04)
Net asset value, end of period	**$12.53**	**$11.82**	**$10.97**	**$ 9.82**	**$ 8.84**
Total Return (%)	6.22	7.98	11.71[b]	11.09	23.94
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	5	32	32	27	15
Ratio of expenses before expense reductions (%)	1.29	1.24	1.32	1.44	1.47
Ratio of expenses after expense reductions (%)	1.29	1.24	1.30	1.44	1.47
Ratio of net investment income (loss) (%)	.55	.29	.07	(.04)	(.01)
Portfolio turnover rate (%)	73	44	32	52	46

a *Based on average shares outstanding during the period.*
b *Total return would have been lower had certain expenses not been reduced.*
* *Amount is less than $.005 per share.*

DWS Large Cap Value VIP

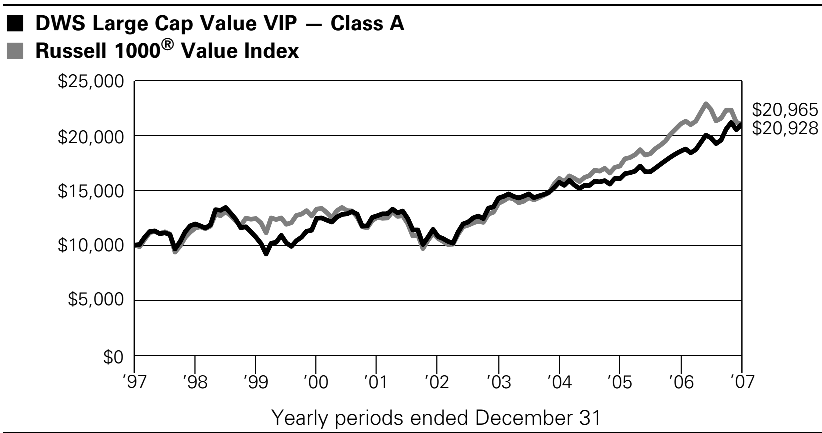
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .82% and 1.20% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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.

Portfolio returns shown for all periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Large Cap Value VIP



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 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

DWS Large Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,315	$13,315	$19,433	$20,928
	Average annual total return	13.15%	10.01%	14.21%	7.66%
Russell 1000 Value Index	Growth of $10,000	$9,983	$13,064	$19,789	$20,965
	Average annual total return	–.17%	9.32%	14.63%	7.68%

DWS Large Cap Value VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$11,277	$13,168	$19,086	$16,784
	Average annual total return	12.77%	9.61%	13.80%	9.87%
Russell 1000 Value Index	Growth of $10,000	$9,983	$13,064	$19,789	$17,556
	Average annual total return	–.17%	9.32%	14.63%	10.77%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Large Cap Value VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,060.20	$1,058.40
Expenses Paid per $1,000*	$ 4.26	$ 6.28
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,021.07	$1,019.11
Expenses Paid per $1,000*	$ 4.18	$ 6.16

* *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**
DWS Variable Series II — DWS Large Cap Value VIP	.82%	1.21%

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

These tables do not 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.

DWS Large Cap Value VIP

Despite a variety of concerns, equity markets in the US were generally positive in 2007, despite considerable volatility. Most world markets were stronger than the US market, particularly Asian markets other than Japan.

For the full year, the Russell 3000® Index, which is generally regarded as a good indicator of the broad US stock market, returned 5.14%. Growth stocks, as measured by the Russell 1000® Growth Index, performed significantly better than value stocks, as measured by the Russell 1000® Value Index. With a return of 13.15% (Class A shares, unadjusted for contract charges), the Portfolio significantly outperformed its benchmark, the Russell 1000 Value Index, which had a return of –0.17%.

In February 2007 a new management team assumed responsibility for the Portfolio. In restructuring the Portfolio, we had three major objectives: to increase diversification by adding to the number of holdings; to increase the position in mid-cap stocks, with a corresponding reduction in the emphasis on the largest capitalization companies; and to increase the representation of companies based outside the US.

The largest contribution to performance relative to the benchmark was made by an underweight and stock selection in the financials sector, where the emphasis was on insurance and the worst-performing stocks were not held in the Portfolio.[1] Other major positives were in energy, where Noble Energy, Inc. and Suncor Energy, Inc. were particularly strong, and information technology, where Nokia Corp.* performed very well.

Performance relative to the benchmark was hurt by stock selection in consumer staples, where an overweight in Kraft Foods, Inc. and underweights in some of the best-performing stocks in the benchmark detracted from the Portfolio's performance relative to the benchmark.

Thomas Schuessler, PhD
Portfolio Manager

Deutsche Asset Management International GmbH, Subadvisor to the Portfolio

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 3000 Index measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

The Russell 1000 Growth Index is an unmanaged, capitalization-weighted index consisting of those stocks in the Russell 1000 Index that have greater-than-average growth orientation.

The Russell 1000 Value Index is an unmanaged, capitalization-weighted 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 the reinvestment of all dividends and, unlike portfolio returns, do not include fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

* *As of December 31, 2007, the position was not held.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Large Cap Value VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	100%	96%
Cash Equivalents	—	4%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Energy	26%	19%
Financials	20%	33%
Utilities	13%	1%
Consumer Staples	9%	5%
Health Care	8%	8%
Industrials	6%	9%
Information Technology	6%	10%
Materials	4%	4%
Consumer Discretionary	4%	7%
Telecommunication Services	4%	4%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 137. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

DWS Large Cap Value VIP

	Shares	Value ($)
Common Stocks 92.8%		
Consumer Discretionary 3.9%		
Hotels Restaurants & Leisure 1.3%		
McDonald's Corp.	53,653	**3,160,698**
Household Durables 0.8%		
Centex Corp.	74,714	**1,887,276**
Media 1.3%		
Gannett Co., Inc.	80,897	**3,154,983**
Specialty Retail 0.5%		
Office Depot, Inc.*	80,807	**1,124,025**
Consumer Staples 7.9%		
Food & Staples Retailing 1.9%		
CVS Caremark Corp.	113,825	**4,524,544**
Food Products 2.8%		
General Mills, Inc.	62,223	3,546,711
Kraft Foods, Inc. "A"	95,488	3,115,773
		6,662,484
Tobacco 3.2%		
Altria Group, Inc.	62,603	4,731,535
Reynolds American, Inc. (a)	43,013	2,837,137
		7,568,672
Energy 24.2%		
Energy Equipment & Services 5.7%		
Baker Hughes, Inc.	28,112	2,279,883
ENSCO International, Inc.	45,664	2,722,488
Halliburton Co.	129,244	4,899,640
Noble Corp.	61,968	3,501,812
		13,403,823
Oil, Gas & Consumable Fuels 18.5%		
Cameco Corp.	78,623	3,129,981
Chevron Corp.	26,836	2,504,604
ConocoPhillips	46,711	4,124,581
Devon Energy Corp.	53,146	4,725,211
ExxonMobil Corp.	51,955	4,867,664
Hess Corp.	30,084	3,034,272
Marathon Oil Corp.	69,607	4,236,282
Nexen, Inc.	86,869	2,803,263
Noble Energy, Inc.	68,073	5,413,165
Occidental Petroleum Corp.	44,313	3,411,658
Suncor Energy, Inc.	52,886	5,750,295
		44,000,976
Financials 18.5%		
Capital Markets 3.0%		
Bank of New York Mellon Corp.	90,973	4,435,844
Lehman Brothers Holdings, Inc.	40,148	2,627,285
		7,063,129
Commercial Banks 1.4%		
Comerica, Inc.	28,805	1,253,881
Zions Bancorp.	43,314	2,022,331
		3,276,212
Diversified Financial Services 2.6%		
CIT Group, Inc.	39,978	960,671
Citigroup, Inc.	80,653	2,374,424
JPMorgan Chase & Co.	68,141	2,974,355
		6,309,450
Insurance 11.0%		
Aflac, Inc.	61,122	3,828,071
Allstate Corp.	84,234	4,399,542
Genworth Financial, Inc. "A"	164,151	4,177,643
Hartford Financial Services Group, Inc.	37,732	3,289,853
Loews Corp.	86,654	4,362,163
MetLife, Inc.	38,813	2,391,657
Prudential Financial, Inc.	40,530	3,770,911
		26,219,840
Thrifts & Mortgage Finance 0.5%		
Washington Mutual, Inc. (a)	80,215	**1,091,726**
Health Care 7.7%		
Biotechnology 0.9%		
Amgen, Inc.*	45,578	**2,116,642**
Health Care Equipment & Supplies 1.9%		
Baxter International, Inc.	77,188	**4,480,763**
Life Sciences Tools & Services 1.2%		
Thermo Fisher Scientific, Inc.*	48,244	**2,782,714**
Pharmaceuticals 3.7%		
Abbott Laboratories	43,780	2,458,247
Merck & Co., Inc.	62,821	3,650,528
Wyeth	60,929	2,692,453
		8,801,228
Industrials 5.5%		
Aerospace & Defense 4.2%		
Honeywell International, Inc.	67,605	4,162,440
Raytheon Co.	43,936	2,666,915
United Technologies Corp.	41,099	3,145,717
		9,975,072
Machinery 1.3%		
Dover Corp.	65,174	**3,003,870**
Information Technology 5.1%		
Computers & Peripherals 2.3%		
Brocade Communications Systems, Inc.*	397,301	2,916,189
Hewlett-Packard Co.	51,054	2,577,206
		5,493,395
Semiconductors & Semiconductor Equipment 1.3%		
Taiwan Semiconductor Manufacturing Co., Ltd. (ADR) (a)	305,564	**3,043,418**
Software 1.5%		
Microsoft Corp.	103,674	**3,690,794**
Materials 4.0%		
Chemicals 2.8%		
Air Products & Chemicals, Inc.	41,506	4,093,737
Dow Chemical Co.	61,954	2,442,227
		6,535,964
Containers & Packaging 1.2%		
Sonoco Products Co.	88,183	**2,881,820**

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

	Shares	Value ($)
Telecommunication Services 3.7%		
Diversified Telecommunication Services		
AT&T, Inc.	145,047	6,028,153
Verizon Communications, Inc.	61,208	2,674,178
		8,702,331
Utilities 12.3%		
Electric Utilities 9.0%		
Allegheny Energy, Inc.	71,470	4,546,207
Duke Energy Corp.	155,866	3,143,817
Exelon Corp.	67,303	5,494,617
FirstEnergy Corp.	56,273	4,070,789
FPL Group, Inc.	60,863	4,125,294
		21,380,724
Multi-Utilities 3.3%		
Dominion Resources, Inc.	65,240	3,095,638
PG&E Corp.	109,628	4,723,871
		7,819,509
Total Common Stocks (Cost $186,453,756)		**220,156,082**
Securities Lending Collateral 0.9%		
Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $2,063,750)	2,063,750	**2,063,750**
Cash Equivalents 0.3%		
Cash Management QP Trust, 4.67%(b) (Cost $741,747)	741,747	**741,747**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $189,259,253)†	94.0	**222,961,579**
Other Assets and Liabilities, Net	6.0	**14,316,940**
Net Assets	100.0	**237,278,519**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $191,282,952. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $31,678,627. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $38,384,484 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,705,857.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $2,037,940 which is 0.9% of net assets.*

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

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

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, 2007

Assets	
Investments:	
Investments in securities, at value (cost $186,453,756) — including $2,037,940 of securities loaned	$ 220,156,082
Investment in Daily Asset Fund Institutional (cost $2,063,750)*	2,063,750
Investment in Cash Management QP Trust (cost $741,747)	741,747
Total investments, at value (cost $189,259,253)	222,961,579
Receivable for investments sold	20,571,799
Dividends receivable	388,691
Interest receivable	91,388
Receivable for Portfolio shares sold	13,891
Other assets	4,029
Total assets	244,031,377
Liabilities	
Cash overdraft	1,574,007
Payable upon return of securities loaned	2,063,750
Payable for Portfolio shares redeemed	254,142
Payable for investments purchased	2,545,237
Accrued management fee	138,559
Other accrued expenses and payables	177,163
Total liabilities	6,752,858
Net assets, at value	**$ 237,278,519**
Net Assets Consist of	
Undistributed net investment income	3,977,565
Net unrealized appreciation (depreciation) on:	
Investments	33,702,326
Foreign currency	64
Accumulated net realized gain (loss)	50,505,433
Paid-in capital	149,093,131
Net assets, at value	**$ 237,278,519**
Class A	
Net Asset Value, offering and redemption price per share ($229,353,363 ÷ 11,941,625 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 19.21**
Class B	
Net Asset Value, offering and redemption price per share ($7,925,156 ÷ 412,771 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 19.20**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $44,178)	$ 5,935,930
Interest — Cash Management QP Trust	534,825
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	11,936
Total Income	6,482,691
Expenses:	
Management fee	1,950,386
Administration fee	197,410
Services to shareholders	802
Custodian fee	30,823
Professional fees	76,816
Distribution service fee (Class B)	46,834
Record keeping fees (Class B)	24,065
Trustees' fees and expenses	34,182
Reports to shareholders	70,666
Other	13,124
Total expenses before expense reductions	2,445,108
Expense reductions	(18,061)
Total expenses after expense reductions	2,427,047
Net investment income (loss)	**4,055,644**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	52,279,003
Foreign currency	3
Payments by affiliates (see Note I)	92,456
	52,371,462
Change in net unrealized appreciation (depreciation) on:	
Investments	(20,593,364)
Foreign currency	64
	(20,593,300)
Net gain (loss)	**31,778,162**
Net increase (decrease) in net assets resulting from operations	**$ 35,833,806**

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, 2007	2006
Operations:		
Net investment income (loss)	$ 4,055,644	$ 5,237,807
Net realized gain (loss)	52,371,462	25,014,587
Change in net unrealized appreciation (depreciation)	(20,593,300)	14,129,866
Net increase (decrease) in net assets resulting from operations	35,833,806	44,382,260
Distributions to shareholders from:		
Net investment income:		
Class A	(4,770,707)	(4,273,682)
Class B	(538,814)	(482,902)
Net realized gains:		
Class A	(9,924,139)	—
Class B	(1,431,558)	—
Total Distributions	**$ (16,665,218)**	**$ (4,756,584)**
Portfolio share transactions:		
Class A		
Proceeds from shares sold	14,988,182	20,402,810
Reinvestment of distributions	14,694,846	4,273,682
Cost of shares redeemed	(93,544,614)	(52,316,305)
Net increase (decrease) in net assets from Class A share transactions	(63,861,586)	(27,639,813)
Class B		
Proceeds from shares sold	699,209	1,368,796
Reinvestment of distributions	1,970,372	482,902
Cost of shares redeemed	(35,609,682)	(7,365,382)
Net increase (decrease) in net assets from Class B share transactions	(32,940,101)	(5,513,684)
Increase (decrease) in net assets	(77,633,099)	6,472,179
Net assets at beginning of period	314,911,618	308,439,439
Net assets at end of period (including undistributed net investment income of $3,977,565 and $5,231,439, respectively)	**$ 237,278,519**	**$ 314,911,618**

Other Information		
Class A		
Shares outstanding at beginning of period	15,303,964	16,949,748
Shares sold	804,074	1,230,380
Shares issued to shareholders in reinvestment of distributions	857,842	263,158
Shares redeemed	(5,024,255)	(3,139,322)
Net increase (decrease) in Class A shares	(3,362,339)	(1,645,784)
Shares outstanding at end of period	**11,941,625**	**15,303,964**
Class B		
Shares outstanding at beginning of period	2,232,310	2,564,460
Shares sold	38,354	81,671
Shares issued to shareholders in reinvestment of distributions	114,823	29,681
Shares redeemed	(1,972,716)	(443,502)
Net increase (decrease) in Class B shares	(1,819,539)	(332,150)
Shares outstanding at end of period	**412,771**	**2,232,310**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$17.96**	**$15.81**	**$15.79**	**$14.57**	**$11.24**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.26	.29[c]	.26	.27	.24
Net realized and unrealized gain (loss)	1.98	2.12	.04	1.18	3.33
Total from investment operations	2.24	2.41	.30	1.45	3.57
Less distributions from:					
Net investment income	(.32)	(.26)	(.28)	(.23)	(.24)
Net realized gains	(.67)	—	—	—	—
Total Distributions	(.99)	(.26)	(.28)	(.23)	(.24)
Net asset value, end of period	**$19.21**	**$17.96**	**$15.81**	**$15.79**	**$14.57**
Total Return (%)	13.15[b,d]	15.41[c]	1.97[b]	10.07	32.60
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	229	275	268	274	263
Ratio of expenses before expense reductions (%)	.83	.83	.80	.80	.80
Ratio of expenses after expense reductions (%)	.82	.83	.80	.80	.80
Ratio of net investment income (loss) (%)	1.43	1.73[c]	1.64	1.84	1.94
Portfolio turnover rate (%)	103	76	64	40	58

a *Based on average shares outstanding during the period.*

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

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.008 per share and an increase in the ratio of net investment income of 0.04%. Excluding this non-recurring income, total return would have been 0.04% lower.*

d *Includes a reimbursement from the Advisor for $92,456 for losses on certain operation errors during the period. Excluding this reimbursement, total return would have been 0.04% lower.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$17.94**	**$15.79**	**$15.77**	**$14.55**	**$11.23**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.19	.23[c]	.19	.22	.18
Net realized and unrealized gain (loss)	1.99	2.11	.05	1.17	3.35
Total from investment operations	2.18	2.34	.24	1.39	3.53
Less distributions from:					
Net investment income	(.25)	(.19)	(.22)	(.17)	(.21)
Net realized gains	(.67)	—	—	—	—
Total Distributions	(.92)	(.19)	(.22)	(.17)	(.21)
Net asset value, end of period	**$19.20**	**$17.94**	**$15.79**	**$15.77**	**$14.55**
Total Return (%)	12.77[b,d]	14.96[c]	1.58[b]	9.65	32.19
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	8	40	40	40	18
Ratio of expenses before expense reductions (%)	1.21	1.21	1.21	1.18	1.19
Ratio of expenses after expense reductions (%)	1.20	1.21	1.20	1.18	1.19
Ratio of net investment income (loss) (%)	1.06	1.35[c]	1.24	1.46	1.55
Portfolio turnover rate (%)	103	76	64	40	58

a *Based on average shares outstanding during the period.*

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

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.008 per share and an increase in the ratio of net investment income of 0.04%. Excluding this non-recurring income, total return would have been 0.04% lower.*

d *Includes a reimbursement from the Advisor for $92,456 for losses on certain operation errors during the period. Excluding this reimbursement, total return would have been 0.04% lower.*

Performance Summary

December 31, 2007

DWS Mid Cap Growth VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are 1.03% and 1.42% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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. Stocks of medium-sized 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 more-abrupt market movements. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

Portfolio returns shown for all periods reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Mid Cap Growth VIP from 5/1/1999 to 12/31/2007

Russell Midcap® Growth Index is an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000® Growth Index.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Mid Cap Growth VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$10,836	$13,831	$19,278	$13,904
	Average annual total return	8.36%	11.42%	14.03%	3.88%
Russell Midcap Growth Index	Growth of $10,000	$11,143	$13,822	$22,779	$16,304
	Average annual total return	11.43%	11.39%	17.90%	5.80%

DWS Mid Cap Growth VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$10,792	$13,678	$18,909	$17,968
	Average annual total return	7.92%	11.01%	13.59%	11.24%
Russell Midcap Growth Index	Growth of $10,000	$11,143	$13,822	$22,779	$20,594
	Average annual total return	11.43%	11.39%	17.90%	14.04%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 1999. Index returns began on April 30, 1999.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Mid Cap Growth VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$ 965.20	$ 963.20
Expenses Paid per $1,000*	$ 4.51	$ 6.68
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,020.62	$1,018.40
Expenses Paid per $1,000*	$ 4.63	$ 6.87

* *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**
DWS Variable Series II — DWS Mid Cap Growth VIP	.91%	1.35%

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

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

DWS Mid Cap Growth VIP

In the first half of 2007, inflation fears, rising global interest rates, increases in energy prices and subprime mortgage woes contributed to volatility in the US and international equity markets. In that same period, strong rallies in US stocks were driven by better-than-expected corporate earnings and a rush of merger and acquisition activity. However, volatility in the US stock market continued right through the fourth quarter. Several financial institutions reported write-downs that amounted to tens of billions of dollars stemming from the subprime mortgage crisis, and market observers worry that there is more disruption to come. Toward the end of the year, the dollar fell to record lows as oil prices reached new highs. In an effort to stimulate economic activity and avoid a recession, the US Federal Reserve Board (the Fed) cut a key short-term interest rate on several occasions, while at the same time noting its continuing concern over inflationary pressures.

For the 12 months ended December 31, 2007, the Portfolio returned 8.36% (Class A shares, unadjusted for contract charges), underperforming the 11.43% return of the Russell Midcap®Growth Index.

During the period, positive contributors to performance included stock selection in the financials and health care sectors. An underweight to consumer staples relative to the benchmark and an overweight to industrials also helped performance.[1] Detractors from performance included stock selection in the consumer discretionary and information technology sectors as well as an overweight to telecommunication services and an underweight to materials compared with the benchmark. We continue to maintain our long-term perspective, investing in quality mid-cap growth stocks.

Robert S. Janis	Joseph Axtell, CFA
Lead Portfolio Manager	*Portfolio Manager*

Deutsche Investment Management Americas Inc.

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. Stocks of medium-sized 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 more-abrupt market movements. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

The Russell Midcap Growth Index is an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Mid Cap Growth VIP

Asset Allocation (As a% of Investment Portfolio Excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	99%	98%
Cash Equivalents	1%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Information Technology	26%	18%
Industrials	18%	14%
Consumer Discretionary	14%	24%
Health Care	12%	16%
Energy	11%	11%
Financials	9%	12%
Telecommunication Services	5%	2%
Materials	3%	1%
Consumer Staples	2%	2%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 146. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

DWS Mid Cap Growth VIP

	Shares	Value ($)
Common Stocks 99.0%		
Consumer Discretionary 13.5%		
Specialty Retail 11.1%		
Dick's Sporting Goods, Inc.* (a)	39,000	1,082,640
Guess?, Inc. (a)	42,000	1,591,380
Tiffany & Co. (a)	18,000	828,540
Urban Outfitters, Inc.* (a)	85,500	2,330,730
		5,833,290
Textiles, Apparel & Luxury Goods 2.4%		
Crocs, Inc.* (a)	18,100	666,261
Phillips-Van Heusen Corp. (a)	16,600	611,876
		1,278,137
Consumer Staples 1.9%		
Food & Staples Retailing 0.9%		
Whole Foods Market, Inc. (a)	12,300	**501,840**
Personal Products 1.0%		
Herbalife Ltd. (a)	12,800	**515,584**
Energy 11.4%		
Energy Equipment & Services 5.2%		
FMC Technologies, Inc.* (a)	14,700	833,490
National-Oilwell Varco, Inc.*	14,500	1,065,170
Rowan Companies, Inc. (a)	21,150	834,579
		2,733,239
Oil, Gas & Consumable Fuels 6.2%		
Southwestern Energy Co.*	29,100	1,621,452
Ultra Petroleum Corp.*	22,530	1,610,895
		3,232,347
Financials 9.0%		
Capital Markets		
Affiliated Managers Group, Inc.* (a)	14,910	1,751,329
Eaton Vance Corp. (a)	18,200	826,462
T. Rowe Price Group, Inc. (a)	23,500	1,430,680
Waddell & Reed Financial, Inc. "A"	20,700	747,063
		4,755,534
Health Care 11.6%		
Health Care Equipment & Supplies 2.7%		
Hologic, Inc.* (a)	20,600	**1,413,984**
Health Care Providers & Services 3.1%		
Pediatrix Medical Group, Inc.*	24,000	**1,635,600**
Life Sciences Tools & Services 4.1%		
Covance, Inc.*	13,500	1,169,370
Pharmaceutical Product Development, Inc.	24,400	985,028
		2,154,398
Pharmaceuticals 1.7%		
Mylan, Inc. (a)	62,700	**881,562**
Industrials 17.5%		
Aerospace & Defense 2.5%		
BE Aerospace, Inc.*	25,100	**1,327,790**
Commercial Services & Supplies 1.1%		
Huron Consulting Group, Inc.* (a)	7,200	**580,536**
Construction & Engineering 0.9%		
Aecom Technology Corp.* (a)	17,100	**488,547**
Electrical Equipment 3.4%		
General Cable Corp.* (a)	8,900	652,192
Roper Industries, Inc. (a)	17,650	1,103,831
		1,756,023
Industrial Conglomerates 1.6%		
McDermott International, Inc.*	13,800	**814,614**
Machinery 8.0%		
Harsco Corp. (a)	10,100	647,107
Manitowoc Co., Inc.	14,400	703,152
Oshkosh Truck Corp. (a)	15,680	741,037
Terex Corp.* (a)	32,280	2,116,599
		4,207,895
Information Technology 26.1%		
Communications Equipment 4.3%		
F5 Networks, Inc.* (a)	43,100	1,229,212
Foundry Networks, Inc.*	59,900	1,049,448
		2,278,660
Semiconductors & Semiconductor Equipment 15.2%		
FormFactor, Inc.* (a)	17,000	562,700
Lam Research Corp.* (a)	15,600	674,388
MEMC Electronic Materials, Inc.*	45,500	4,026,295
NVIDIA Corp.*	28,000	952,560
Tessera Technologies, Inc.* (a)	22,500	936,000
Varian Semiconductor Equipment Associates, Inc.* (a)	22,400	828,800
		7,980,743
Software 6.6%		
Activision, Inc.*	58,900	1,749,330
Citrix Systems, Inc.*	25,200	957,852
FactSet Research Systems, Inc. (a)	13,900	774,230
		3,481,412
Materials 3.0%		
Metals & Mining		
Allegheny Technologies, Inc. (a)	6,000	518,400
Gerdau Ameristeel Corp.	73,000	1,038,060
		1,556,460
Telecommunication Services 5.0%		
Wireless Telecommunication Services		
NII Holdings, Inc.*	29,060	1,404,179
SBA Communications Corp. "A"* (a)	36,400	1,231,776
		2,635,955
Total Common Stocks (Cost $39,758,020)		**52,044,150**
Securities Lending Collateral 31.0%		
Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $16,301,818)	16,301,818	**16,301,818**

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

	Shares	Value ($)
Cash Equivalents 1.0%		
Cash Management QP Trust, 4.67%(b) (Cost $514,888)	514,888	**514,888**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $56,574,726)†	131.0	**68,860,856**
Other Assets and Liabilities, Net	(31.0)	**(16,287,963)**
Net Assets	100.0	**52,572,893**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $56,574,726. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $12,286,130. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $13,529,050 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,242,920.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $15,876,687 which is 30.2% of net assets.*

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

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

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets		
Investments:		
Investments in securities, at value (cost $39,758,020) — including $15,876,687 of securities loaned	$	52,044,150
Investment in Daily Assets Fund Institutional (cost $16,301,818)*		16,301,818
Investment in Cash Management QP Trust (cost $514,888)		514,888
Total investments, at value (cost $56,574,726)		68,860,856
Cash		3,115
Receivable for investments sold		171,385
Dividends receivable		11,700
Interest receivable		10,342
Due from Advisor		2,447
Other assets		1,204
Total assets		69,061,049

Liabilities		
Payable for Portfolio shares redeemed		87,107
Payable upon return of securities loaned		16,301,818
Accrued management fee		22,398
Other accrued expenses and payables		76,833
Total liabilities		16,488,156
Net assets, at value	**$**	**52,572,893**

Net Assets Consist of		
Accumulated net investment loss		(6,766)
Net unrealized appreciation (depreciation) on investments		12,286,130
Accumulated net realized gain (loss)		(20,554,048)
Paid-in capital		60,847,577
Net assets, at value	**$**	**52,572,893**
Class A		
Net Asset Value, offering and redemption price per share ($50,630,325 ÷ 3,720,929 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.61**
Class B		
Net Asset Value, offering and redemption price per share ($1,942,568 ÷ 145,552 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.35**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income		
Dividends	$	133,606
Interest — Cash Management QP Trust		80,645
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		85,683
Total Income		299,934
Expenses:		
Management fee		435,886
Services to shareholders		407
Custodian and accounting fees		69,696
Distribution service fee (Class B)		10,285
Record keeping fees (Class B)		5,524
Professional fees		64,427
Trustees' fees and expenses		12,891
Reports to shareholders		22,101
Other		4,134
Total expenses before expense reductions		625,351
Expense reductions		(86,543)
Total expenses after expense reductions		538,808
Net investment income (loss)		**(238,874)**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		8,021,482
Foreign currency		(35)
		8,021,447
Change in net unrealized appreciation (depreciation) on investments		(2,652,715)
Net gain (loss)		**5,368,732**
Net increase (decrease) in net assets resulting from operations	**$**	**5,129,858**

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, 2007	2006
Operations:		
Net investment income (loss)	$ (238,874)	$ (344,480)
Net realized gain (loss)	8,021,447	4,409,781
Change in net unrealized appreciation (depreciation)	(2,652,715)	2,176,003
Net increase (decrease) in net assets resulting from operations	5,129,858	6,241,304
Portfolio share transactions:		
Class A		
Proceeds from shares sold	7,675,878	5,059,680
Cost of shares redeemed	(14,497,003)	(14,794,831)
Net increase (decrease) in net assets from Class A share transactions	(6,821,125)	(9,735,151)
Class B		
Proceeds from shares sold	1,053,940	1,920,284
Cost of shares redeemed	(7,779,098)	(1,540,560)
Net increase (decrease) in net assets from Class B share transactions	(6,725,158)	379,724
Increase (decrease) in net assets	(8,416,425)	(3,114,123)
Net assets at beginning of period	60,989,318	64,103,441
Net assets at end of period (including accumulated net investment loss of $6,766 and $5,750, respectively)	**$ 52,572,893**	**$ 60,989,318**

Other Information		
Class A		
Shares outstanding at beginning of period	4,226,008	5,056,911
Shares sold	567,035	418,748
Shares redeemed	(1,072,114)	(1,249,651)
Net increase (decrease) in Class A shares	(505,079)	(830,903)
Shares outstanding at end of period	**3,720,929**	**4,226,008**
Class B		
Shares outstanding at beginning of period	640,328	612,639
Shares sold	79,290	159,745
Shares redeemed	(574,066)	(132,056)
Net increase (decrease) in Class B shares	(494,776)	27,689
Shares outstanding at end of period	**145,552**	**640,328**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$12.56**	**$11.32**	**$ 9.84**	**$ 9.46**	**$ 7.06**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.05)	(.06)[c]	(.05)	(.01)	(.05)
Net realized and unrealized gain (loss)	1.10	1.30	1.53	.39	2.45
Total from investment operations	1.05	1.24	1.48	.38	2.40
Net asset value, end of period	**$13.61**	**$12.56**	**$11.32**	**$ 9.84**	**$ 9.46**
Total Return (%)[b]	8.36	10.95[c]	15.04	4.02	33.99
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	51	53	57	53	56
Ratio of expenses before expense reductions (%)	1.05	1.03	1.01	1.02	.98
Ratio of expenses after expense reductions (%)	.90	.93	.95	.95	.95
Ratio of net investment income (loss) (%)	(.38)	(.51)[c]	(.45)	(.11)	(.57)
Portfolio turnover rate (%)	68	46	104	103	91

[a] *Based on average shares outstanding during the period.*

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

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.03%. Excluding this non-recurring income, total return would have been 0.03% lower.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$12.37**	**$11.19**	**$ 9.76**	**$ 9.42**	**$ 7.06**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.10)	(.10)[c]	(.09)	(.05)	(.09)
Net realized and unrealized gain (loss)	1.08	1.28	1.52	.39	2.45
Total from investment operations	.98	1.18	1.43	.34	2.36
Net asset value, end of period	**$13.35**	**$12.37**	**$11.19**	**$ 9.76**	**$ 9.42**
Total Return (%)[b]	7.92	10.55[c]	14.65	3.61	33.43
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	8	7	6	4
Ratio of expenses before expense reductions (%)	1.43	1.42	1.40	1.41	1.37
Ratio of expenses after expense reductions (%)	1.28	1.29	1.32	1.34	1.34
Ratio of net investment income (loss) (%)	(.76)	(.87)[c]	(.82)	(.50)	(.96)
Portfolio turnover rate (%)	68	46	104	103	91

[a] *Based on average shares outstanding during the period.*

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

[c] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.003 per share and an increase in the ratio of net investment income of 0.03%. Excluding this non-recurring income, total return would have been 0.03% lower.*

Information About Your Portfolio's Expenses

DWS Money Market VIP

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 contract charges, 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 they not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,024.70	$1,022.90
Expenses Paid per $1,000*	$ 2.25	$ 4.03

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,022.99	$1,021.22
Expenses Paid per $1,000*	$ 2.24	$ 4.02

* *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.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Money Market VIP	.44%	.79%

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

These tables do not 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.

DWS Money Market VIP

In the first quarter of 2007, increasing defaults by subprime mortgage borrowers and losses on residential mortgage-backed securities sparked volatility in the financial markets as investors wondered to what degree Wall Street and the banking community would be hurt by a retrenchment in this market. As we entered the second half of the year, it became clear that several financial firms would need to shed excess debt and sell assets in order to avoid significant losses. For much of August, buyers in the credit markets had almost disappeared, replaced entirely by sellers. At the short end of the yield curve, asset-backed securities' yields spiked significantly, reflecting investors' credit concerns, as did LIBOR, the industry standard for measuring one-year money market rates. In response to this "credit crunch," as well as to fears of an oncoming economic recession, the US Federal Reserve Board (the Fed) added liquidity to the financial system with a number of measures, including three separate cuts of the federal funds rate (the overnight rate charged by banks when they borrow money from each other) totaling one percentage point.

During the 12-month period ended December 31, 2007, the Portfolio provided a total return of 5.00% (Class A shares, unadjusted for contract charges) compared with the 4.78% average return for the 107 funds in the Lipper Money Market Variable Annuity Funds category for the same period, according to Lipper Inc. The 7-day current yield for the period ending December 31, 2007 was 4.58%. The investment advisor has agreed to waive fees/reimburse expenses. Without such fee waivers/expense reimbursements, the 7-day current yield would have been 4.58% as of December 31, 2007.

Given the difficult situation throughout the investment markets during the period, and recognizing that the credit crunch was not likely to be a short-term phenomenon, our strategy was to avoid credit risk as much as possible. Therefore, especially during the latter half of the year, we increased the Portfolio's positions in Treasury securities, agency securities and overnight liquidity positions, and decreased holdings in asset-backed commercial paper. During the summer we kept the Portfolio's average maturity short, but, confident that the Fed would need to cut rates, we gradually extended maturity with very high-quality securities. This strategy helped avoid problem credits and losses stemming from the widespread credit issues in the market. Going forward, we will continue to monitor investment markets, economic data and Fed statements carefully.

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.

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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.

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 Portfolio's shares outstanding.

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.

The Lipper Money Market Variable Annuity 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.

LIBOR, or 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.

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Money Market VIP

Asset Allocation	12/31/07	12/31/06
Commercial Paper	46%	32%
Short-Term Notes	22%	37%
Certificates of Deposit and Bank Notes	20%	19%
Government & Agency Obligations	4%	—
Promissory Notes	2%	2%
Repurchase Agreements	2%	6%
Master Notes	2%	—
Time Deposit	1%	—
Asset Backed	1%	1%
Funding Agreement	—	3%
	100%	100%

Weighted Average Maturity*		
DWS Variable Series II — DWS Money Market VIP	41 days	35 days
First Tier Retail Money Fund Average	41 days	42 days

* *The Fund is compared to its respective iMoneyNet Category: First Tier Retail Money Fund Average — Category includes a widely-recognized composite of money market funds that invest in only first tier (highest rating) securities. Portfolio Holdings of First Tier funds include US Treasury, US Other, Repos, Time Deposits, Domestic Bank Obligations, Foreign Bank Obligations, First Tier Commercial Paper, Floating Rate Notes and Asset Backed Commercial Paper.*

Asset allocation and weighted average maturity are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 154. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the 14th day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 14th day following quarter-end.

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, 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.

DWS Money Market VIP

	Principal Amount ($)	Value ($)
Certificates of Deposit and Bank Notes 20.1%		
ABN Amro Bank NV:		
4.81%, 1/31/2008	2,000,000	2,000,010
5.03%, 1/24/2008	1,800,000	1,800,023
5.1%, 1/22/2008	4,000,000	4,000,069
Banco Bilbao Vizcaya Argentaria SA, 5.27%, 1/8/2008	3,000,000	3,000,006
Banco Santander Central Hispano SA, 4.99%, 2/1/2008	7,000,000	7,000,238
Bank of Tokyo-Mitsubishi-UFJ, Ltd., 5.3%, 2/21/2008	5,000,000	5,000,000
Barclays Bank PLC:		
5.2%, 4/9/2008	1,800,000	1,800,000
5.5%, 3/12/2008	3,500,000	3,500,000
BNP Paribas, 5.1%, 3/13/2008	3,000,000	3,000,000
Calyon, 4.8%, 3/25/2008	1,750,000	1,750,000
Chase Bank USA, NA, 5.15%, 2/12/2008	1,750,000	1,750,000
Citibank, NA, 5.3%, 2/20/2008	2,000,000	2,000,000
Credit Industrial et Commercial, 4.95%, 2/1/2008	1,500,000	1,500,006
Dexia Credit Local, 4.95%, 1/22/2008	4,000,000	4,000,000
HSH Nordbank AG, 5.35%, 1/11/2008	3,500,000	3,499,996
JPMorgan Chase Bank, NA, 4.75%, 6/10/2008	1,900,000	1,900,000
KBC Bank NV, 5.7%, 3/6/2008	1,500,000	1,500,261
Landesbank Baden Wurttemberg, 5.4%, 3/18/2008	1,500,000	1,500,000
Mizuho Corporate Bank, 4.93%, 2/19/2008	11,500,000	11,500,000
Societe Generale:		
5.305%, 1/24/2008	3,000,000	3,000,009
5.35%, 1/18/2008	3,700,000	3,700,000
UBS AG:		
5.39%, 3/18/2008	3,800,000	3,800,000
5.48%, 3/7/2008	3,800,000	3,800,000
Total Certificates of Deposit and Bank Notes (Cost $76,300,618)		**76,300,618**
Commercial Paper 46.1%**		
AstraZeneca PLC:		
4.65%, 2/28/2008	2,200,000	2,183,518
4.95%, 4/7/2008	2,750,000	2,713,322
Bank of America Corp., 4.865%, 4/11/2008	2,000,000	1,972,702
CAFCO LLC, 5.35%, 2/12/2008	4,000,000	3,975,033
Cancara Asset Securitization LLC:		
4.87%, 2/8/2008	1,800,000	1,790,747
4.93%, 1/9/2008	4,000,000	3,995,618
Ciesco LLC:		
5.4%, 1/28/2008	3,000,000	2,987,850
5.43%, 2/14/2008	2,500,000	2,483,408
5.45%, 2/14/2008	2,500,000	2,483,347
CVS Corp., 4.8%, 1/2/2008	2,000,000	1,999,733
DNB NOR Bank ASA, 5.075%, 1/16/2008	3,000,000	2,993,656
Eksportfinans AS, 4.61%, 4/21/2008	6,000,000	5,914,715
Falcon Asset Securitization Corp.:		
4.9%, 1/15/2008	4,000,000	3,992,378
5.4%, 1/28/2008	2,000,000	1,991,900
General Electric Capital Corp., 5.15%, 1/24/2008	2,400,000	2,392,103
Giro Balanced Funding Corp., 5.59%, 1/31/2008	3,000,000	2,986,025
Glaxosmithkline Finance PLC, 4.55%, 1/22/2008	4,000,000	3,989,383
Grampian Funding LLC:		
4.865%, 2/11/2008	1,500,000	1,491,689
5.16%, 2/5/2008	2,500,000	2,487,458
Greenwich Capital Holdings, Inc., 4.81%, 5/28/2008	1,800,000	1,764,406
International Lease Finance Corp., 4.68%, 1/25/2008	3,600,000	3,588,768
KBC Financial Products International Ltd., 4.97%, 2/14/2008	6,750,000	6,708,998
Kellogg Co.:		
5.0%, 1/10/2008	2,500,000	2,496,875
5.28%, 1/31/2008	800,000	796,480
Kitty Hawk Funding Corp.:		
4.87%, 2/14/2008	6,826,000	6,785,370
5.0%, 1/7/2008	2,500,000	2,497,917
Lake Constance Funding LLC, 5.23%, 1/11/2008	3,000,000	2,995,642
Liberty Street Funding, 5.4%, 2/19/2008	3,800,000	3,772,070
Natexis Banques Populaires US Finance Co., LLC, 4.745%, 2/6/2008	1,500,000	1,492,883
Nestle Capital Corp.:		
4.3%, 10/31/2008	500,000	481,844
5.23%, 1/24/2008	2,000,000	1,993,317
Nissan Motor Acceptance Corp.:		
5.15%, 1/23/2008	3,000,000	2,990,558
5.7%, 1/9/2008	1,500,000	1,498,100
Norddeutsche Landesbank Girozentrale, 5.23%, 1/7/2008	1,500,000	1,498,693
North Sea Funding LLC, 5.15%, 1/25/2008	3,000,000	2,989,700
Old Line Funding LLC, 5.85%, 2/8/2008	2,000,000	1,987,650
Perry Global Funding LLC, Series A, 5.26%, 1/17/2008	1,500,000	1,496,493
Pfizer, Inc.:		
4.4%, 5/14/2008	2,500,000	2,459,056
4.41%, 5/16/2008	1,000,000	983,340
4.53%, 4/28/2008	1,800,000	1,773,273
Procter & Gamble International Funding S.C.A.:		
4.47%, 2/14/2008	500,000	497,268
4.5%, 2/5/2008	5,600,000	5,575,500
San Paolo IMI US Financial Co., 5.28%, 1/7/2008	10,000,000	9,991,200
Scaldis Capital LLC:		
5.02%, 1/25/2008	5,300,000	5,282,263
5.24%, 1/9/2008	3,000,000	2,996,507

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

	Principal Amount ($)	Value ($)
Sheffield Receivables Corp.:		
5.8%, 1/18/2008	2,000,000	1,994,522
5.9%, 1/23/2008	1,900,000	1,893,149
Societe Generale North America, Inc.:		
4.775%, 2/1/2008	3,000,000	2,987,665
5.16%, 1/3/2008	3,400,000	3,399,025
Swedbank AB, 4.73%, 2/29/2008	3,800,000	3,770,543
The Goldman Sachs Group, Inc., 5.3%, 1/8/2008	1,500,000	1,498,454
Three Rivers Funding Corp., 5.0%, 1/2/2008	7,300,000	7,298,986
Toyota Motor Credit Corp.:		
4.5%, 2/12/2008	3,500,000	3,481,625
4.61%, 4/25/2008	3,300,000	3,251,403
4.84%, 3/31/2008	1,500,000	1,481,850
United Parcel Service, Inc., 4.18%, 5/30/2008	750,000	736,938
Victory Receivables Corp., 5.5%, 2/15/2008	2,500,000	2,482,813
Westpac Banking Corp., 5.1%, 1/11/2008	3,200,000	3,195,467
Windmill Funding Corp.:		
5.07%, 1/18/2008	3,500,000	3,491,620
5.35%, 2/1/2008	1,900,000	1,891,247
Total Commercial Paper (Cost $175,074,063)		**175,074,063**

Short Term Notes* 21.7%

	Principal Amount ($)	Value ($)
American General Finance Corp., 5.328%, 1/18/2008	5,000,000	4,999,800
American Honda Finance Corp., 5.171%, 1/23/2008	3,000,000	3,000,088
Banco Bilbao Vizcaya Argentaria SA, 5.234%, 4/17/2008	3,500,000	3,500,441
Banco Espanol de Credito SA, 5.198%, 8/11/2008	3,700,000	3,700,000
Bank of America NA, 4.315%, 5/16/2008	2,500,000	2,500,000
BNP Paribas, 4.896%, 8/25/2008	3,000,000	3,000,000
Caja de Ahorros y Monte de Piedad de Madrid, 5.348%, 8/12/2008	1,000,000	1,000,000
Canadian Imperial Bank of Commerce, 4.41%, 6/9/2008	1,000,000	1,000,000
Credit Agricole SA, 4.853%, 7/22/2008	3,000,000	3,000,000
Danske Bank AS, 4.918%, 8/19/2008	3,200,000	3,199,865
DNB NOR Bank ASA, 4.865%, 9/24/2008	9,500,000	9,500,000
General Electric Capital Corp.:		
4.916%, 8/19/2011	10,000,000	10,000,000
5.198%, 1/15/2008	2,000,000	1,999,916
Intesa Bank Ireland PLC, 4.875%, 8/22/2008	500,000	500,000
K2 (USA) LLC, 144A, 5.03%, 2/26/2008	8,000,000	8,000,358
Links Finance LLC:		
4.97%, 4/28/2008	3,000,000	2,999,906
144A, 5.0%, 2/25/2008	4,000,000	3,999,968
M&I Marshall & Ilsley Bank, 5.027%, 8/14/2008	4,000,000	4,000,000
Northern Rock PLC, 5.27%, 8/4/2008	3,500,000	3,500,000
Skandinaviska Enskilda Banken, 5.016%, 8/19/2008	4,000,000	4,000,000
UniCredito Italiano Bank (Ireland) PLC:		
5.047%, 8/14/2008	1,000,000	1,000,000
5.262%, 8/8/2008	4,000,000	4,000,000
Total Short Term Notes (Cost $82,400,342)		**82,400,342**

Asset Backed 0.8%

	Principal Amount ($)	Value ($)
Steers Mercury III Trust, 144A, 4.885%*, 5/27/2048 (Cost $2,947,821)	2,947,821	**2,947,821**

Master Notes 2.1%

	Principal Amount ($)	Value ($)
Citigroup Global Markets, Inc., 4.6%*, 1/2/2008 (a) (Cost $8,000,000)	8,000,000	**8,000,000**

Promissory Notes 2.4%

	Principal Amount ($)	Value ($)
The Goldman Sachs Group, Inc., 4.12%*, 1/18/2008 (Cost $9,000,000)	9,000,000	**9,000,000**

Time Deposit 0.8%

	Principal Amount ($)	Value ($)
Calyon, 3.875%, 1/2/2008 (Cost $3,000,000)	3,000,000	**3,000,000**

Government and Agency Obligations 4.0%

US Government Sponsored Agencies 2.6%

	Principal Amount ($)	Value ($)
Federal Home Loan Bank, 4.625%, 11/21/2008	1,200,000	1,204,833
Federal Home Loan Mortgage Corp.:		
3.7%**, 10/10/2008	750,000	728,185
4.15%**, 6/9/2008	1,000,000	981,556
4.27%**, 3/20/2008	2,000,000	1,981,259
Federal National Mortgage Association:		
3.94%**, 8/8/2008	2,000,000	1,951,845
4.2%**, 4/18/2008	1,000,000	987,400
4.235%**, 3/19/2008	2,000,000	1,981,648

US Treasury Obligations 1.4%

	Principal Amount ($)	Value ($)
US Treasury Bills:		
3.17%**, 5/29/2008	1,500,000	1,480,320
3.265%**, 6/19/2008	1,500,000	1,476,873
3.275%**, 6/19/2008	1,500,000	1,476,802
US Treasury Note, 3.375%, 12/15/2008	750,000	752,929
Total Government and Agency Obligations (Cost $15,003,650)		**15,003,650**

Repurchase Agreements 2.1%

	Principal Amount ($)	Value ($)
JPMorgan Securities, Inc., 4.76%, dated 12/31/2007, to be repurchased at $7,982,841 on 1/2/2008 (b) (Cost $7,980,731)	7,980,731	**7,980,731**

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

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $379,707,225)†	100.1	**379,707,225**
Other Assets and Liabilities, Net	(0.1)	**(220,908)**
Net Assets	100.0	**379,486,317**

* *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, 2007.*

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

† *The cost for federal income tax purposes was $379,707,225.*

(a) *Reset date; not a maturity date.*

(b) *Collateralized by $7,746,385 Government National Mortgage Association, 6.5%, maturing on 5/20/2032 with a value of $8,142,700.*

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, 2007

Assets	
Investments:	
Investment in securities, valued at amortized cost	$ 379,707,225
Total investments, valued at amortized cost	379,707,225
Cash	11,649
Interest receivable	1,444,309
Receivable for Portfolio shares sold	112,072
Other assets	7,629
Total assets	381,282,884
Liabilities	
Payable for Portfolio shares redeemed	873,959
Distributions payable	667,424
Accrued management fee	125,258
Other accrued expenses and payables	129,926
Total liabilities	1,796,567
Net assets, at value	**$ 379,486,317**
Net Assets Consist of	
Distributions in excess of net investment income	(23,878)
Paid-in capital	379,510,195
Net assets, at value	**$ 379,486,317**
Class A	
Net Asset Value, offering and redemption price per share ($355,230,953 ÷ 355,238,751 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 1.00**
Class B	
Net Asset Value, offering and redemption price per share ($24,255,364 ÷ 24,259,126 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 1.00**

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Interest	$ 19,288,778
Expenses:	
Management fee	1,392,290
Services to shareholders	1,785
Custodian fee	28,318
Distribution service fee (Class B)	88,694
Professional fees	66,277
Record keeping fees (Class B)	43,686
Trustees' fee and expenses	26,632
Reports to shareholders	115,697
Other	12,928
Total expenses, before expense reductions	1,776,307
Expense reductions	(35,333)
Total expenses, after expense reductions	1,740,974
Net investment income	**17,547,804**
Net realized gain (loss)	**15,068**
Net increase (decrease) in net assets resulting from operations	**$ 17,562,872**

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, 2007	2006
Operations:		
Net investment income	$ 17,547,804	$ 14,558,077
Net realized gain (loss)	15,068	5,373
Net increase (decrease) in net assets resulting from operations	17,562,872	14,563,450
Distributions to shareholders from:		
Net investment income:		
Class A	(15,932,890)	(12,054,423)
Class B	(1,617,257)	(2,502,064)
Total Distributions	$ (17,550,147)	$ (14,556,487)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	266,620,495	168,824,740
Net assets acquired in tax-free reorganization	—	56,965,779
Reinvestment of distributions	15,863,609	11,880,927
Cost of shares redeemed	(221,020,237)	(178,891,004)
Net increase (decrease) in net assets from Class A share transactions	61,463,867	58,780,442
Class B		
Proceeds from shares sold	36,113,440	63,581,378
Reinvestment of distributions	1,612,484	2,487,387
Cost of shares redeemed	(71,843,157)	(65,942,247)
Net increase (decrease) in net assets from Class B share transactions	(34,117,233)	126,518
Increase (decrease) in net assets	27,359,359	58,913,923
Net assets at beginning of period	352,126,958	293,213,035
Net assets at end of period (including distributions in excess of net investment income of $23,878 and $34,790, respectively)	**$ 379,486,317**	**$ 352,126,958**

Other Information	2007	2006
Class A		
Shares outstanding at beginning of period	293,774,884	235,000,612
Shares sold	266,620,495	168,824,740
Shares acquired in tax-free reorganization	—	56,959,609
Shares issued to shareholders in reinvestment of distributions	15,863,609	11,880,927
Shares redeemed	(221,020,237)	(178,891,004)
Net increase (decrease) in Class A shares	61,463,867	58,774,272
Shares outstanding at end of period	**355,238,751**	**293,774,884**
Class B		
Shares outstanding at beginning of period	58,376,359	58,249,841
Shares sold	36,113,440	63,581,378
Shares issued to shareholders in reinvestment of distributions	1,612,484	2,487,387
Shares redeemed	(71,843,157)	(65,942,247)
Net increase (decrease) in Class B shares	(34,117,233)	126,518
Shares outstanding at end of period	**24,259,126**	**58,376,359**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Income from investment operations:					
Net investment income	.049	.046	.028	.009	.007
Total from investment operations	.049	.046	.028	.009	.007
Less distributions from:					
Net investment income	(.049)	(.046)	(.028)	(.009)	(.007)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	5.00[a]	4.65[a]	2.80	.91	.72
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	355	294	235	241	326
Ratio of expenses before expense reductions (%)	.46	.52	.52	.53	.54
Ratio of expenses after expense reductions (%)	.45	.51	.52	.53	.54
Ratio of net investment income (%)	4.88	4.58	2.77	.88	.73

[a] *Total return would have been lower had certain expenses not been reduced.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Income from investment operations:					
Net investment income	.046	.042	.024	.005	.004
Total from investment operations	.046	.042	.024	.005	.004
Less distributions from:					
Net investment income	(.046)	(.042)	(.024)	(.005)	(.004)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	4.65[a]	4.25[a]	2.42	.52	.42[a]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	24	58	58	53	66
Ratio of expenses before expense reductions (%)	.82	.90	.89	.91	.93
Ratio of expenses after expense reductions (%)	.80	.89	.89	.91	.92
Ratio of net investment income (%)	4.53	4.20	2.40	.50	.35

[a] *Total return would have been lower had certain expenses not been reduced.*

DWS Small Cap Growth VIP

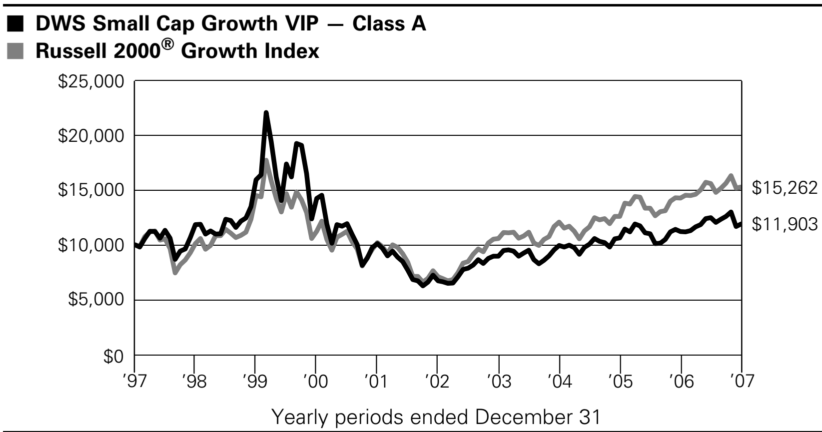
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .73% and 1.12% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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 this product's investments and risk profile.

Portfolio returns during the period reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Small Cap Growth VIP



The Russell 2000® Growth Index is an unmanaged, capitalization-weighted index of those securities in the Russell 2000 Index with a higher price-to-book ratio and higher forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Small Cap Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,620	$11,970	$17,667	$11,903
	Average annual total return	6.20%	6.18%	12.06%	1.76%
Russell 2000 Growth Index	Growth of $10,000	$10,705	$12,637	$21,457	$15,262
	Average annual total return	7.05%	8.11%	16.50%	4.32%

DWS Small Cap Growth VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,580	$11,835	$17,336	$15,729
	Average annual total return	5.80%	5.78%	11.63%	8.58%
Russell 2000 Growth Index	Growth of $10,000	$10,705	$12,637	$21,457	$18,104
	Average annual total return	7.05%	8.11%	16.50%	11.40%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Small Cap Growth VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$ 954.40	$ 952.30
Expenses Paid per $1,000*	$ 3.55	$ 5.61
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,021.58	$1,019.46
Expenses Paid per $1,000*	$ 3.67	$ 5.80

* *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**
DWS Variable Series II — DWS Small Cap Growth VIP	.72%	1.14%

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

These tables do not 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.

DWS Small Cap Growth VIP

In the first half of 2007, inflation fears, rising global interest rates, increases in energy prices and subprime mortgage woes contributed to volatility in the US and international equity markets. In that same period, strong rallies in US stocks were driven by better-than-expected corporate earnings and a rush of merger and acquisition activity. However, volatility in the US stock market continued right through the fourth quarter. Several financial institutions reported write-downs that amounted to tens of billions of dollars stemming from the subprime mortgage crisis, and market observers worry that there is more disruption to come. However, worldwide there has been adequate liquidity to offset such losses through investments in these troubled companies. Toward the end of the year, the dollar fell to record lows as oil prices reached new highs. In an effort to stimulate economic activity and avoid a recession, the US Federal Reserve Board (the Fed) cut a key short-term interest rate on three occasions, while at the same time noting its continuing concern over inflationary pressures.

For the 12 months ended December 31, 2007, the Portfolio returned 6.20% (Class A shares, unadjusted for contract charges), underperforming the 7.05% return of the Russell 2000® Growth Index.

During the period, positive contributors to performance included stock selection in the energy, consumer discretionary and financials sectors. Underweights to financials and consumer staples compared with the benchmark also helped performance.[1] Detractors from performance included stock selection in the health care and information technology sectors; an underweight to health care, industrials and materials; and an overweight to consumer discretionary relative to the benchmark. We continue to maintain a long-term perspective, investing in quality small-cap growth stocks.

Robert S. Janis	Joseph Axtell, CFA
Lead Portfolio Manager	*Portfolio Manager*

Deutsche Investment Management Americas Inc.

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 this product's investments and risk profile.

The Russell 2000 Growth Index is an unmanaged, capitalization-weighted index of those securities in the Russell 2000 Index with a higher price-to-book ratio and higher forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Small Cap Growth VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	98%	97%
Cash Equivalents	2%	3%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Information Technology	29%	26%
Consumer Discretionary	20%	22%
Industrials	15%	4%
Health Care	13%	23%
Energy	11%	12%
Financials	8%	8%
Consumer Staples	2%	3%
Materials	2%	—
Telecommunication Services	—	2%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 164. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS Small Cap Growth VIP

	Shares	Value ($)
Common Stocks 97.5%		
Consumer Discretionary 19.5%		
Hotels Restaurants & Leisure 8.7%		
Buffalo Wild Wings, Inc.*	153,200	3,557,304
Chipotle Mexican Grill, Inc. "A"* (a)	29,300	4,309,151
Einstein Noah Restaurant Group, Inc.* (a)	85,800	1,557,270
Orient-Express Hotels Ltd. "A"	109,400	6,292,688
		15,716,413
Specialty Retail 9.3%		
bebe stores, inc. (a)	224,100	2,881,926
Cabela's, Inc.* (a)	120,700	1,818,949
Citi Trends, Inc.* (a)	100,300	1,548,632
Guess?, Inc.	216,500	8,203,185
Zumiez, Inc.* (a)	98,700	2,404,332
		16,857,024
Textiles, Apparel & Luxury Goods 1.5%		
Volcom, Inc.*	123,600	**2,722,908**
Consumer Staples 2.2%		
Personal Products		
American Oriental Bioengineering, Inc.* (a)	356,500	**3,950,020**
Energy 11.2%		
Energy Equipment & Services 6.0%		
Atwood Oceanics, Inc.* (a)	82,900	8,309,896
Dril-Quip, Inc.*	45,100	2,510,266
		10,820,162
Oil, Gas & Consumable Fuels 5.2%		
Carrizo Oil & Gas, Inc.*	125,500	6,871,125
EXCO Resources, Inc.*	166,700	2,580,516
		9,451,641
Financials 7.5%		
Capital Markets 3.8%		
FCStone Group, Inc.*	64,300	2,959,729
Waddell & Reed Financial, Inc. "A"	107,700	3,886,893
		6,846,622
Diversified Financial Services 2.0%		
Portfolio Recovery Associates, Inc. (a)	90,370	**3,584,978**
Insurance 1.7%		
eHealth, Inc.* (a)	95,300	**3,060,083**
Health Care 12.6%		
Health Care Equipment & Supplies 3.6%		
Orthofix International NV*	68,000	3,941,960
West Pharmaceutical Services, Inc.	62,800	2,549,052
		6,491,012
Health Care Providers & Services 7.1%		
inVentiv Health, Inc.*	125,100	3,873,096
Nighthawk Radiology Holdings, Inc.* (a)	181,800	3,826,890
Providence Service Corp.* (a)	181,900	5,118,666
		12,818,652
Life Sciences Tools & Services 1.9%		
Kendle International, Inc.*	71,900	**3,517,348**
Industrials 14.7%		
Aerospace & Defense 4.0%		
BE Aerospace, Inc.*	135,600	**7,173,240**
Commercial Services & Supplies 6.4%		
EnergySolutions, Inc.*	36,400	982,436
Fuel Tech, Inc.* (a)	112,600	2,550,390
Hill International, Inc.* (a)	212,000	3,004,040
Huron Consulting Group, Inc.*	61,400	4,950,682
		11,487,548
Construction & Engineering 0.9%		
Aecom Technology Corp.*	57,100	**1,631,347**
Electrical Equipment 1.8%		
Baldor Electric Co.	82,000	2,760,120
Orion Energy Systems, Inc.*	29,700	554,202
		3,314,322
Machinery 1.6%		
Astec Industries, Inc.*	79,800	**2,967,762**
Information Technology 28.2%		
Communications Equipment 2.0%		
Foundry Networks, Inc.*	208,000	**3,644,160**
Electronic Equipment & Instruments 3.9%		
Itron, Inc.* (a)	72,500	**6,957,825**
Internet Software & Services 4.2%		
Bankrate, Inc.* (a)	82,500	3,967,425
LoopNet, Inc.* (a)	264,100	3,710,605
		7,678,030
IT Services 3.8%		
CyberSource Corp.*	236,900	4,209,713
Forrester Research, Inc.*	93,200	2,611,464
		6,821,177
Semiconductors & Semiconductor Equipment 9.4%		
Atheros Communications*	112,300	3,429,642
FormFactor, Inc.*	145,000	4,799,500
Netlogic Microsystems, Inc.* (a)	66,300	2,134,860
Standard Microsystems Corp.*	82,900	3,238,903
Tessera Technologies, Inc.*	80,000	3,328,000
		16,930,905
Software 4.9%		
Blackboard, Inc.*	86,800	3,493,700
Informatica Corp.*	115,300	2,077,706
THQ, Inc.*	116,650	3,288,363
		8,859,769
Materials 1.6%		
Metals & Mining		
Brush Engineered Materials, Inc.*	44,200	1,636,285
Haynes International, Inc.*	18,100	1,257,950
		2,894,235
Total Common Stocks (Cost $145,211,347)		**176,197,183**

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

	Shares	Value ($)
Securities Lending Collateral 24.8%		
Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $44,828,725)	44,828,725	**44,828,725**
Cash Equivalents 2.2%		
Cash Management QP Trust, 4.67% (b) (Cost $4,001,824)	4,001,824	**4,001,824**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $194,041,896)	124.5	**225,027,732**
Other Assets and Liabilities, Net	(24.5)	**(44,338,343)**
Net Assets	100.0	**180,689,389**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $194,085,421. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $30,942,311. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $42,852,114 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $11,909,803.*

(a) *All or a portion of these securities were on loan amounting to $41,583,233. In addition, included in other assets and liabilities, net is a pending sale, amounting to $1,831,418, that is also on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $43,414,651 which is 24.0% of net assets.*

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

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

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets	
Investments:	
Investments in securities, at value (cost $145,211,347) — including $41,583,233 of securities loaned	$ 176,197,183
Investment in Daily Assets Fund Institutional (cost $44,828,725)*	44,828,725
Investment in Cash Management QP Trust (cost $4,001,824)	4,001,824
Total investments, at value (cost $194,041,896)	225,027,732
Receivable for investments sold	2,887,086
Dividends receivable	33,401
Interest receivable	87,784
Receivable for Portfolio shares sold	37
Due from Advisor	926
Other assets	4,557
Total assets	228,041,523
Liabilities	
Cash overdraft	1,831,418
Payable for Portfolio shares redeemed	42,958
Payable upon return of securities loaned	44,828,725
Payable for investments purchased	414,857
Accrued management fee	91,002
Other accrued expenses and payables	143,174
Total liabilities	47,352,134
Net assets, at value	**$ 180,689,389**
Net Assets Consist of	
Accumulated net investment loss	(16,875)
Net unrealized appreciation (depreciation) on investments	30,985,836
Accumulated net realized gain (loss)	(87,377,733)
Paid-in capital	237,098,161
Net assets, at value	**$ 180,689,389**
Class A	
Net Asset Value, offering and redemption price per share ($173,775,366 ÷ 11,529,906 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 15.07**
Class B	
Net Asset Value, offering and redemption price per share ($6,914,023 ÷ 468,018 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 14.77**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends	$ 319,882
Interest — Cash Management QP Trust	234,704
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	804,557
Total Income	1,359,143
Expenses:	
Management fee	1,413,741
Services to shareholders	530
Custodian fee	15,612
Distribution service fee (Class B)	43,093
Record keeping fees (Class B)	22,349
Professional fees	77,960
Trustees' fees and expenses	30,308
Reports to shareholders	70,374
Other	12,694
Total expenses before expense reductions	1,686,661
Expense reductions	(60,838)
Total expenses after expense reductions	1,625,823
Net investment income (loss)	**(266,680)**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	29,911,977
Foreign currency	9
	29,911,986
Change in net unrealized appreciation (depreciation) on investments	(13,909,833)
Net gain (loss)	**16,002,153**
Net increase (decrease) in net assets resulting from operations	**$ 15,735,473**

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, 2007	2006
Operations:		
Net investment income (loss)	$ (266,680)	$ (999,550)
Net realized gain (loss)	29,911,986	18,324,595
Change in net unrealized appreciation (depreciation)	(13,909,833)	(3,666,288)
Net increase (decrease) in net assets resulting from operations	15,735,473	13,658,757
Portfolio share transactions:		
Class A		
Proceeds from shares sold	7,088,648	11,831,161
Cost of shares redeemed	(54,833,999)	(58,380,185)
Net increase (decrease) in net assets from Class A share transactions	(47,745,351)	(46,549,024)
Class B		
Proceeds from shares sold	890,860	2,945,973
Cost of shares redeemed	(33,397,002)	(6,685,805)
Net increase (decrease) in net assets from Class B share transactions	(32,506,142)	(3,739,832)
Increase (decrease) in net assets	(64,516,020)	(36,630,099)
Net assets at beginning of period	245,205,409	281,835,508
Net assets at end of period (including accumulated net investment loss of $16,875 and $9,528, respectively)	**$ 180,689,389**	**$ 245,205,409**

Other Information		
Class A		
Shares outstanding at beginning of period	14,686,087	18,035,147
Shares sold	469,331	837,139
Shares redeemed	(3,625,512)	(4,186,199)
Net increase (decrease) in Class A shares	(3,156,181)	(3,349,060)
Shares outstanding at end of period	**11,529,906**	**14,686,087**
Class B		
Shares outstanding at beginning of period	2,636,495	2,908,589
Shares sold	59,404	216,737
Shares redeemed	(2,227,881)	(488,831)
Net increase (decrease) in Class B shares	(2,168,477)	(272,094)
Shares outstanding at end of period	**468,018**	**2,636,495**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$14.19**	**$13.48**	**$12.59**	**$11.34**	**$ 8.53**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.01)	(.04)[d]	(.06)	(.05)	(.04)
Net realized and unrealized gain (loss)	.89	.75	.95	1.30	2.85
Total from investment operations	.88	.71	.89	1.25	2.81
Net asset value, end of period	**$15.07**	**$14.19**	**$13.48**	**$12.59**	**$11.34**
Total Return (%)	6.20[b]	5.27[b,d]	7.07[c]	11.02	32.94
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	174	208	243	210	210
Ratio of expenses before expense reductions (%)	.75	.73	.72	.71	.69
Ratio of expenses after expense reductions (%)	.72	.72	.72	.71	.69
Ratio of net investment income (loss) (%)	(.09)	(.32)[d]	(.47)	(.47)	(.41)
Portfolio turnover rate (%)	67	73	94	117	123

[a] *Based on average shares outstanding during the period.*

[b] *Total return would have been lower had certain expenses been reduced.*

[c] *In 2005, the Portfolio realized a gain of $49,496 on the disposal of an investment not meeting the Portfolio's investment restrictions. This violation had no negative impact on the total return.*

[d] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.008 per share and an increase in the ratio of net investment income of 0.06%. Excluding this non-recurring income, total return would have been 0.06% lower.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$13.96**	**$13.32**	**$12.48**	**$11.29**	**$ 8.52**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.07)	(.09)[d]	(.11)	(.10)	(.09)
Net realized and unrealized gain (loss)	.88	.73	.95	1.29	2.86
Total from investment operations	.81	.64	.84	1.19	2.77
Net asset value, end of period	**$14.77**	**$13.96**	**$13.32**	**$12.48**	**$11.29**
Total Return (%)	5.80[b]	4.80[b,d]	6.73[b,c]	10.54[b]	32.51
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	7	37	39	28	15
Ratio of expenses before expense reductions (%)	1.13	1.12	1.12	1.10	1.08
Ratio of expenses after expense reductions (%)	1.09	1.09	1.09	1.09	1.08
Ratio of net investment income (loss) (%)	(.46)	(.69)[d]	(.84)	(.85)	(.80)
Portfolio turnover rate (%)	67	73	94	117	123

[a] *Based on average shares outstanding during the period.*

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

[c] *In 2005, the Portfolio realized a gain of $49,496 on the disposal of an investment not meeting the Portfolio's investment restrictions. This violation had no negative impact on the total return.*

[d] *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.008 per share and an increase in the ratio of net investment income of 0.06%. Excluding this non-recurring income, total return would have been 0.06% lower.*

Performance Summary

December 31, 2007

DWS Strategic Income VIP

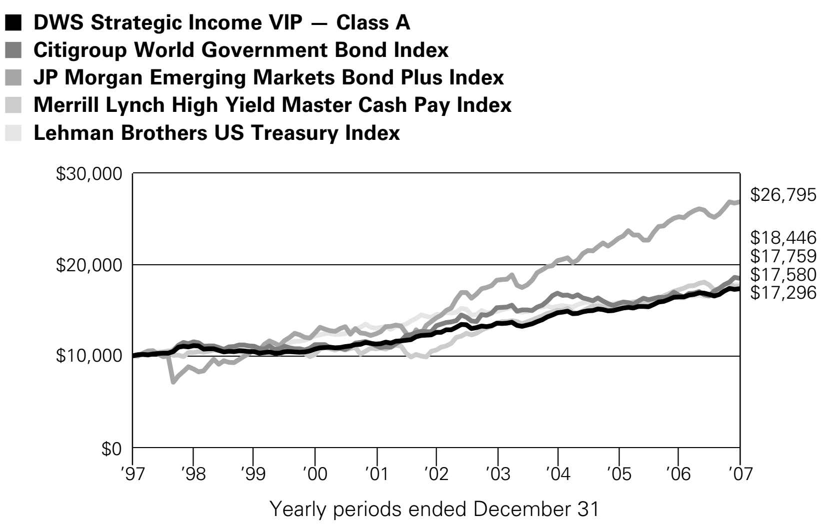
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .85% and 1.24% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the year ended December 31, 2007.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond investment, can decline and the investor can lose principal value. 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.

Portfolio returns for all periods shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Strategic Income VIP



The Citigroup World Government Bond Index is an unmanaged index comprised of government bonds from 22 developed countries (including the US) with maturities greater than one year. 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 Cash Pay 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. 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.

Index returns, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Strategic Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,543	$11,764	$13,778	$17,296
	Average annual total return	5.43%	5.56%	6.62%	5.63%
Citigroup World Government Bond Index	Growth of $10,000	$11,095	$10,964	$13,903	$18,446
	Average annual total return	10.95%	3.12%	6.81%	6.31%
JP Morgan Emerging Markets Bond Plus Index	Growth of $10,000	$10,645	$13,156	$18,944	$26,795
	Average annual total return	6.45%	9.57%	13.63%	10.36%
Merrill Lynch High Yield Master Cash Pay Index	Growth of $10,000	$10,217	$11,729	$16,529	$17,580
	Average annual total return	2.17%	5.46%	10.57%	5.80%
Lehman Brothers US Treasury Index	Growth of $10,000	$10,901	$11,551	$12,227	$17,759
	Average annual total return	9.01%	4.92%	4.10%	5.91%

The growth of $10,000 is cumulative.

Comparative Results

DWS Strategic Income VIP		1-Year	3-Year	Life of Class*
Class B	Growth of $10,000	$10,507	$11,646	$12,983
	Average annual total return	5.07%	5.21%	5.75%
Citigroup World Government Bond Index	Growth of $10,000	$11,095	$10,964	$13,324
	Average annual total return	10.95%	3.12%	6.34%
JP Morgan Emerging Markets Bond Plus Index	Growth of $10,000	$10,645	$13,156	$16,573
	Average annual total return	6.45%	9.57%	11.42%
Merrill Lynch High Yield Master Cash Pay Index	Growth of $10,000	$10,217	$11,729	$14,640
	Average annual total return	2.17%	5.46%	8.51%
Lehman Brothers US Treasury Index	Growth of $10,000	$10,901	$11,551	$12,052
	Average annual total return	9.01%	4.92%	4.08%

The growth of $10,000 is cumulative.

* *The Portfolio commenced offering Class B shares on May 1, 2003. Index returns began on April 30, 2003.*

Information About Your Portfolio's Expenses

DWS Strategic Income VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,036.30	$1,034.70
Expenses Paid per $1,000*	$ 4.16	$ 6.00

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,021.12	$1,019.31
Expenses Paid per $1,000*	$ 4.13	$ 5.96

* *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
DWS Variable Series II — DWS Strategic Income VIP	.81%	1.17%

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

These tables do not 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.

DWS Strategic Income VIP

The Portfolio's Class A shares provided a total return of 5.43% (unadjusted for contract charges) during 2007. The returns of its benchmarks were as follows: Citigroup World Government Bond Index, 10.95%; JP Morgan Emerging Markets Bond Plus Index, 6.45%; Merrill Lynch High Yield Master Cash Pay Index, 2.17%; Lehman Brothers US Treasury Index, 9.01%.

The Portfolio was overweight in high-yield bonds early in the year, a positive for returns.[1] We later opted to reduce this weighting to neutral, a move that proved well-timed given the sector's subsequent downturn. The Portfolio also was overweight in emerging-markets bonds, which added value in the first half of the period but later dampened returns. In the United States, we emphasized Treasuries for the majority of the year, but rising yield spreads prompted us to purchase select corporate issues and AAA-rated commercial mortgage-backed securities during the second half.[2] We added to our overall position in the United States in recent months, redeploying a portion of the assets that had been invested in the developed international markets. Outside of the United States, the low interest rate environment prompted us to overweight higher-yielding countries such as Canada, Greece, and Spain, as well as short-term bonds in the United Kingdom. In currencies, we added value by underweighting the poor-performing US dollar.

Amid a potentially challenging environment, we believe it is essential to maintain diversification across the entire bond market. While this positioning may cause short-term performance to ebb and flow, we believe it can continue to prove effective over time.

Gary Sullivan, CFA
Matthew F. MacDonald
Robert Wang
William Chepolis, CFA
Thomas Picciochi

Portfolio Managers, Deutsche Investment Management Americas Inc.

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. Bond investments are subject to interest-rate risk such that when interest rates rise, the prices of the bonds, and thus the value of the bond investment, can decline and the investor can lose principal value. 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 Citigroup World Government Bond Index is an unmanaged index comprised of government bonds from 22 developed countries, including the US, with maturities greater than one year.

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 Cash Pay 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.

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.

Index returns, unlike portfolio returns, do not reflect fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the portfolio holds a lower weighting.*

2 *The yield spread is the difference between the yield of a security and the yield of a comparable duration Treasury. A large spread indicates that investors require yields substantially above those of Treasuries in order to invest in lower-quality bonds. This is generally indicative of a higher-risk environment. A smaller spread generally indicates a more positive environment, since investors are less concerned about risk and therefore willing to accept lower yields. A drop in the yield spread is a positive.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Strategic Income VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Government & Agency Obligations	44%	56%
Corporate Bonds	34%	36%
Cash Equivalents	13%	7%
Commercial and Non-Agency Mortgage-Backed Securities	5%	—
Senior Loans	2%	—
Sovereign Loans	1%	—
Asset Backed	1%	—
Other	—	1%
	100%	100%

Quality (Excludes Securities Lending Collateral)	**12/31/07**	**12/31/06**
AAA*	32%	30%
AA	1%	1%
A	5%	6%
BBB	7%	5%
BB	20%	25%
B	16%	20%
CCC	4%	5%
Not Rated	15%	8%
	100%	100%

* *Includes cash equivalents*

Interest Rate Sensitivity	**12/31/07**	**12/31/06**
Average maturity	6.6 years	7.6 years
Average duration	3.5 years	5.4 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 Portfolio's credit quality does not remove market risk.

For more complete details about the Portfolio's investment portfolio, see page 174. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day 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, 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.

DWS Strategic Income VIP

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 32.3%		
Consumer Discretionary 6.4%		
AAC Group Holding Corp., 14.75%, 10/1/2012 (PIK) (b)	47,542	43,501
Affinia Group, Inc., 9.0%, 11/30/2014	90,000	81,000
AMC Entertainment, Inc., 8.0%, 3/1/2014	145,000	136,300
American Achievement Corp., 8.25%, 4/1/2012	30,000	29,250
American Media Operations, Inc., Series B, 10.25%, 5/1/2009 (b)	41,454	35,391
Asbury Automotive Group, Inc.:		
7.625%, 3/15/2017	65,000	57,525
8.0%, 3/15/2014 (b)	30,000	28,350
Ashtead Holdings PLC, 144A, 8.625%, 8/1/2015	120,000	105,000
Burlington Coat Factory Warehouse Corp., 11.125%, 4/15/2014	55,000	44,138
Cablevision Systems Corp., Series B, 9.644%**, 4/1/2009	25,000	25,281
Caesars Entertainment, Inc., 8.875%, 9/15/2008	65,000	67,215
CanWest MediaWorks LP, 144A, 9.25%, 8/1/2015	50,000	48,938
Carrols Corp., 9.0%, 1/15/2013	30,000	27,300
Charter Communications Holdings LLC:		
Series B, 10.25%, 9/15/2010	80,000	78,000
10.25%, 9/15/2010	325,000	318,500
11.0%, 10/1/2015 (b)	261,000	212,715
Cooper-Standard Automotive, Inc., 8.375%, 12/15/2014 (b)	40,000	31,700
CSC Holdings, Inc.:		
7.25%, 7/15/2008	50,000	50,062
Series B, 8.125%, 7/15/2009	55,000	55,894
Series B, 8.125%, 8/15/2009	110,000	111,925
Denny's Corp. Holdings, Inc., 10.0%, 10/1/2012	20,000	19,225
Dollar General Corp., 144A, 10.625%, 7/15/2015	60,000	55,050
Dollarama Group LP, 144A, 10.599%**, 8/15/2012	52,000	52,000
EchoStar DBS Corp.:		
6.625%, 10/1/2014	65,000	64,675
7.125%, 2/1/2016	80,000	81,600
Fontainebleau Las Vegas Holdings LLC, 144A, 10.25%, 6/15/2015	80,000	69,400
Foot Locker, Inc., 8.5%, 1/15/2022	20,000	18,400
French Lick Resorts & Casinos LLC, 144A, 10.75%, 4/15/2014	210,000	153,300
General Motors Corp.:		
7.2%, 1/15/2011	200,000	184,000
7.4%, 9/1/2025	60,000	43,500
8.375%, 7/15/2033	140,000	112,700
Goodyear Tire & Rubber Co., 11.25%, 3/1/2011	340,000	361,250
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015	55,000	54,450
Group 1 Automotive, Inc., 8.25%, 8/15/2013	30,000	28,950
Hanesbrands, Inc., Series B, 8.204%**, 12/15/2014 (b)	85,000	84,150
Hertz Corp.:		
8.875%, 1/1/2014	80,000	81,100
10.5%, 1/1/2016 (b)	35,000	36,225
Idearc, Inc., 8.0%, 11/15/2016	280,000	256,900
Indianapolis Downs LLC, 144A, 11.0%, 11/1/2012	40,000	38,600
ION Media Networks, Inc., 144A, 11.493%**, 1/15/2013	55,000	54,106
Isle of Capri Casinos, Inc., 7.0%, 3/1/2014	90,000	73,800
Jarden Corp., 7.5%, 5/1/2017	50,000	43,000
Kabel Deutschland GmbH, 10.625%, 7/1/2014	75,000	78,750
Lamar Media Corp., 144A, 6.625%, 8/15/2015	40,000	38,900
Liberty Media LLC:		
5.7%, 5/15/2013 (b)	10,000	9,264
8.25%, 2/1/2030 (b)	50,000	47,982
8.5%, 7/15/2029 (b)	95,000	93,052
Majestic Star Casino LLC, 9.5%, 10/15/2010	10,000	9,450
McDonald's Corp., Series I, 6.3%, 10/15/2037	210,000	217,778
Mediacom Broadband LLC, 8.5%, 10/15/2015	5,000	4,431
MediMedia USA, Inc., 144A, 11.375%, 11/15/2014	30,000	30,900
Metaldyne Corp., 11.0%, 6/15/2012 (b)	20,000	12,900
MGM MIRAGE:		
6.75%, 9/1/2012	25,000	24,344
8.375%, 2/1/2011	50,000	51,125
MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010	95,000	95,000
News America, Inc., 144A, 6.65%, 11/15/2037	430,000	443,535
Norcraft Holdings/Capital, Step-up Coupon, 0% to 9/1/2008, 9.75% to 9/1/2012 (b)	155,000	139,500
Penske Automotive Group, Inc., 7.75%, 12/15/2016	140,000	130,900
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013	60,000	61,050
Quebecor Media, Inc., 144A, 7.75%, 3/15/2016	40,000	38,400
Quebecor World, Inc., 144A, 9.75%, 1/15/2015	45,000	33,806
Reader's Digest Association, Inc., 144A, 9.0%, 2/15/2017	50,000	41,875
Sabre Holdings Corp., 8.35%, 3/15/2016	50,000	44,500
Seminole Hard Rock Entertainment, Inc., 144A, 7.491%**, 3/15/2014	65,000	62,075
Shingle Springs Tribal Gaming Authority, 144A, 9.375%, 6/15/2015	50,000	48,500
Simmons Co.:		
Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014	185,000	136,900
7.875%, 1/15/2014	50,000	46,250

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

		Principal Amount ($)(a)	Value ($)
Sinclair Television Group, Inc., 8.0%, 3/15/2012 (b)		29,000	29,544
Sirius Satellite Radio, Inc., 9.625%, 8/1/2013		85,000	80,325
Six Flags, Inc., 9.75%, 4/15/2013		25,000	18,750
Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013		55,000	53,487
Station Casinos, Inc., 6.5%, 2/1/2014 (b)		120,000	90,000
Toys "R" Us, Inc., 7.375%, 10/15/2018		45,000	32,513
Travelport LLC:			
9.749%**, 9/1/2014		45,000	43,538
9.875%, 9/1/2014		55,000	55,825
Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015 (b)		125,000	95,156
United Components, Inc., 9.375%, 6/15/2013		10,000	9,875
Univision Communications, Inc., 144A, 9.75%, 3/15/2015 (PIK)		205,000	186,806
UPC Holding BV:			
144A, 7.75%, 1/15/2014	EUR	100,000	139,443
144A, 8.0%, 11/1/2016	EUR	50,000	68,899
Vitro SAB de CV:			
8.625%, 2/1/2012		40,000	37,600
9.125%, 2/1/2017		150,000	138,000
Series A, 11.75%, 11/1/2013		35,000	36,488
XM Satellite Radio, Inc., 9.75%, 5/1/2014		115,000	111,262
Young Broadcasting, Inc., 8.75%, 1/15/2014		330,000	234,712
			6,957,756
Consumer Staples 1.7%			
Alliance One International, Inc., 8.5%, 5/15/2012		20,000	19,500
Archer-Daniels-Midland Co., 6.45%, 1/15/2038		285,000	296,202
Del Laboratories, Inc., 8.0%, 2/1/2012		50,000	52,000
Delhaize America, Inc.:			
8.05%, 4/15/2027		20,000	21,083
9.0%, 4/15/2031		132,000	152,615
General Nutrition Centers, Inc., 0.009%**, 3/15/2014 (PIK) (b)		65,000	61,425
Harry & David Holdings, Inc., 10.124%**, 3/1/2012		50,000	47,000
North Atlantic Trading Co., 144A, 10.0%, 3/1/2012		223,000	205,160
Pierre Foods, Inc., 9.875%, 7/15/2012		35,000	25,550
Pilgrim's Pride Corp., 7.625%, 5/1/2015		25,000	24,563
Reynolds American, Inc., 6.75%, 6/15/2017		600,000	611,114
Rite Aid Corp., 7.5%, 3/1/2017		95,000	83,719
Smithfield Foods, Inc., 7.75%, 7/1/2017		65,000	62,887
Viskase Companies, Inc., 11.5%, 6/15/2011		225,000	225,000
			1,887,818

	Principal Amount ($)(a)	Value ($)
Energy 3.0%		
Belden & Blake Corp., 8.75%, 7/15/2012	310,000	313,100
Chaparral Energy, Inc., 8.5%, 12/1/2015	110,000	99,000
Chesapeake Energy Corp.:		
6.25%, 1/15/2018	35,000	33,600
6.875%, 1/15/2016	170,000	168,300
7.75%, 1/15/2015	25,000	25,500
Cimarex Energy Co., 7.125%, 5/1/2017	45,000	44,213
Delta Petroleum Corp., 7.0%, 4/1/2015	125,000	106,875
Dynegy Holdings, Inc.:		
6.875%, 4/1/2011 (b)	15,000	14,475
8.375%, 5/1/2016	105,000	102,638
Energy Partners Ltd., 9.75%, 4/15/2014	50,000	47,250
Frontier Oil Corp., 6.625%, 10/1/2011	40,000	39,800
GAZ Capital (Gazprom), 144A, 6.51%, 3/7/2022	230,000	218,661
Mariner Energy, Inc.:		
7.5%, 4/15/2013	50,000	48,125
8.0%, 5/15/2017	70,000	66,588
OPTI Canada, Inc.:		
144A, 7.875%, 12/15/2014	90,000	87,975
144A, 8.25%, 12/15/2014	70,000	69,300
Petrobras International Finance Co., 5.875%, 3/1/2018	80,000	79,560
Petronas Capital Ltd., Series REG S, 7.875%, 5/22/2022	115,000	143,501
Plains Exploration & Production Co., 7.0%, 3/15/2017	60,000	57,375
Quicksilver Resources, Inc., 7.125%, 4/1/2016	45,000	44,213
Sabine Pass LNG LP:		
7.25%, 11/30/2013	100,000	95,500
7.5%, 11/30/2016	200,000	191,000
Stone Energy Corp., 6.75%, 12/15/2014	195,000	180,862
Tennessee Gas Pipeline Co., 7.625%, 4/1/2037	45,000	48,402
Tesoro Corp., 6.5%, 6/1/2017	75,000	74,250
VeraSun Energy Corp., 144A, 9.375%, 6/1/2017 (b)	40,000	34,900
Whiting Petroleum Corp.:		
7.0%, 2/1/2014	70,000	69,300
7.25%, 5/1/2012	125,000	123,125
7.25%, 5/1/2013 (b)	30,000	29,550
Williams Companies, Inc.:		
8.125%, 3/15/2012	180,000	195,975
8.75%, 3/15/2032	265,000	323,962
Williams Partners LP, 7.25%, 2/1/2017	45,000	46,350
		3,223,225
Financials 7.7%		
Algoma Acquisition Corp., 144A, 9.875%, 6/15/2015	160,000	131,200
American General Finance Corp., Series J, 6.9%, 12/15/2017	350,000	350,350
Ashton Woods USA LLC, 9.5%, 10/1/2015	145,000	92,800
Buffalo Thunder Development Authority, 144A, 9.375%, 12/15/2014	30,000	26,700

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		Principal Amount ($)(a)	Value ($)
Conproca SA de CV, Series REG S, 12.0%, 6/16/2010		300,000	325,500
Countrywide Home Loans, Inc., Series L, 3.25%, 5/21/2008		660,000	596,421
Diageo Capital PLC, 4.375%, 5/3/2010		400,000	398,904
E*TRADE Financial Corp.:			
7.375%, 9/15/2013		100,000	77,000
7.875%, 12/1/2015		155,000	118,187
8.0%, 6/15/2011		120,000	104,100
Ford Motor Credit Co., LLC:			
7.25%, 10/25/2011		125,000	108,270
7.375%, 10/28/2009		690,000	649,460
7.875%, 6/15/2010		205,000	189,147
7.993%**, 1/13/2012		100,000	83,996
GMAC LLC, 6.875%, 9/15/2011		750,000	641,620
Hawker Beechcraft Acquisition Co., LLC:			
144A, 8.5%, 4/1/2015		115,000	115,000
144A, 8.875%, 4/1/2015 (PIK)		100,000	99,000
144A, 9.75%, 4/1/2017		110,000	109,450
Hexion US Finance Corp., 9.75%, 11/15/2014		60,000	64,800
Hub International Holdings, Inc., 144A, 9.0%, 12/15/2014		40,000	35,700
Inmarsat Finance PLC, Step-up Coupon, 0% to 11/15/2008, 10.375% to 11/15/2012		70,000	67,988
iPayment, Inc., 9.75%, 5/15/2014		45,000	42,075
KAR Holdings, Inc.:			
144A, 8.75%, 5/1/2014 (b)		50,000	46,000
144A, 10.0%, 5/1/2015		40,000	35,700
Kreditanstalt fuer Wiederaufbau:			
2.05%, 9/21/2009	JPY	185,000,000	1,689,828
2.05%, 2/16/2026	JPY	110,000,000	981,399
Local TV Finance LLC, 144A, 9.25%, 6/15/2015 (PIK)		50,000	47,750
New ASAT (Finance) Ltd., 9.25%, 2/1/2011		90,000	72,225
Nuveen Investments, Inc., 144A, 10.5%, 11/15/2015		100,000	99,625
Petroplus Finance Ltd., 144A, 7.0%, 5/1/2017		75,000	68,625
Pinnacle Foods Finance LLC, 144A, 9.25%, 4/1/2015		35,000	31,938
Realogy Corp., 144A, 12.375%, 4/15/2015 (b)		40,000	25,200
Residential Capital LLC:			
5.646%**, 6/9/2008		20,000	17,100
7.625%, 11/21/2008		100,000	79,500
7.782%**, 11/21/2008		155,000	123,225
Triad Acquisition Corp., Series B, 11.125%, 5/1/2013		35,000	25,900
Tropicana Entertainment LLC, 9.625%, 12/15/2014		195,000	123,825
U.S.I. Holdings Corp.:			
144A, 8.744%**, 11/15/2014		25,000	21,375
144A, 9.75%, 5/15/2015		20,000	16,100
UCI Holdco, Inc., 12.491%**, 12/15/2013 (PIK)		62,384	58,953
Universal City Development Partners, 11.75%, 4/1/2010 (b)		235,000	243,225
Yankee Acquisition Corp., Series B, 8.5%, 2/15/2015 (b)		80,000	73,700
			8,308,861

	Principal Amount ($)(a)	Value ($)
Health Care 1.4%		
Advanced Medical Optics, Inc., 7.5%, 5/1/2017	90,000	82,800
Bausch & Lomb, Inc., 144A, 9.875%, 11/1/2015	80,000	81,200
Boston Scientific Corp., 6.0%, 6/15/2011	50,000	48,250
Community Health Systems, Inc., 8.875%, 7/15/2015	390,000	397,312
HCA, Inc.:		
9.125%, 11/15/2014	95,000	98,800
9.25%, 11/15/2016	135,000	141,750
9.625%, 11/15/2016 (PIK)	85,000	89,888
HEALTHSOUTH Corp., 10.75%, 6/15/2016	70,000	73,150
IASIS Healthcare LLC, 8.75%, 6/15/2014	50,000	50,000
Psychiatric Solutions, Inc., 7.75%, 7/15/2015	50,000	49,875
Sun Healthcare Group, Inc., 9.125%, 4/15/2015	45,000	45,338
Surgical Care Affiliates, Inc., 144A, 8.875%, 7/15/2015 (PIK)	55,000	50,050
The Cooper Companies, Inc., 7.125%, 2/15/2015	95,000	92,387
Universal Hospital Services, Inc., 8.5%, 6/1/2015 (PIK)	35,000	35,350
Vanguard Health Holding Co. I, LLC, Step-up Coupon, 0% to 10/1/2009, 11.25% to 10/1/2015	75,000	55,500
Vanguard Health Holding Co. II, LLC, 9.0%, 10/1/2014	150,000	144,375
		1,536,025
Industrials 3.5%		
Actuant Corp., 144A, 6.875%, 6/15/2017	40,000	39,600
Aleris International, Inc., 9.0%, 12/15/2014 (PIK)	65,000	54,275
Allied Security Escrow Corp., 11.375%, 7/15/2011	85,000	79,900
American Color Graphics, Inc., 10.0%, 6/15/2010	80,000	43,200
American Color Graphics, Inc., Promissory Note due 3/15/2008 10.0%, 6/15/2010 (g)	4,800	2,592
ARAMARK Corp.:		
8.411%**, 2/1/2015	65,000	63,375
8.5%, 2/1/2015 (b)	75,000	75,937
Baldor Electric Co., 8.625%, 2/15/2017	45,000	46,350
Belden, Inc., 7.0%, 3/15/2017	45,000	43,875
Bombardier, Inc., 144A, 6.75%, 5/1/2012 (b)	100,000	101,250
Bristow Group, Inc., 144A, 7.5%, 9/15/2017	70,000	70,350
Browning-Ferris Industries, Inc., 7.4%, 9/15/2035	165,000	153,450
Building Materials Corp. of America, 7.75%, 8/1/2014	65,000	49,725
Cenveo Corp., 7.875%, 12/1/2013	120,000	106,950
Congoleum Corp., 8.625%, 8/1/2008*	125,000	93,750
DRS Technologies, Inc.:		
6.625%, 2/1/2016	25,000	24,688
6.875%, 11/1/2013 (b)	135,000	134,325
7.625%, 2/1/2018	165,000	167,062

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	Principal Amount ($)(a)	Value ($)
Education Management LLC, 8.75%, 6/1/2014	45,000	45,169
Esco Corp., 144A, 8.625%, 12/15/2013	95,000	95,000
General Cable Corp.:		
7.125%, 4/1/2017 (b)	55,000	53,900
7.606%**, 4/1/2015	55,000	52,250
Great Lakes Dredge & Dock Co., 7.75%, 12/15/2013 (b)	50,000	46,750
Harland Clarke Holdings Corp., 9.5%, 5/15/2015 (b)	45,000	38,925
Iron Mountain, Inc., 8.75%, 7/15/2018 (b)	35,000	36,794
K. Hovnanian Enterprises, Inc.:		
6.25%, 1/15/2016	175,000	119,000
8.875%, 4/1/2012	170,000	96,900
Kansas City Southern de Mexico SA de CV:		
144A, 7.375%, 6/1/2014	40,000	38,900
7.625%, 12/1/2013	155,000	152,869
9.375%, 5/1/2012	140,000	146,650
Kansas City Southern Railway Co.:		
7.5%, 6/15/2009	45,000	45,056
9.5%, 10/1/2008	385,000	392,700
Mobile Services Storage Group, Inc., 9.75%, 8/1/2014	85,000	78,200
Navios Maritime Holdings, Inc., 9.5%, 12/15/2014 (b)	75,000	76,687
Panolam Industries International, Inc., 10.75%, 10/1/2013	30,000	26,100
R.H. Donnelley Corp., 144A, 8.875%, 10/15/2017	310,000	286,750
Rainbow National Services LLC, 144A, 10.375%, 9/1/2014	13,000	14,089
RBS Global & Rexnord Corp., 9.5%, 8/1/2014	45,000	44,550
Ship Finance International Ltd., 8.5%, 12/15/2013	45,000	45,619
Swift Transportation Co., 144A, 12.5%, 5/15/2017	40,000	20,650
Tenneco, Inc., 144A, 8.125%, 11/15/2015	30,000	29,700
Titan International, Inc., 8.0%, 1/15/2012 (b)	195,000	188,175
TransDigm, Inc., 7.75%, 7/15/2014	30,000	30,450
U.S. Concrete, Inc., 8.375%, 4/1/2014	55,000	48,125
United Rentals North America, Inc.:		
6.5%, 2/15/2012	60,000	54,450
7.0%, 2/15/2014	145,000	121,437
Xerox Capital Trust I, 8.0%, 2/1/2027	35,000	34,956
		3,811,455

Information Technology 0.9%

	Principal Amount ($)(a)	Value ($)
Alion Science & Technology Corp., 10.25%, 2/1/2015	40,000	34,100
First Data Corp., 144A, 9.875%, 9/24/2015	60,000	55,800
Freescale Semiconductor, Inc., 8.875%, 12/15/2014 (b)	45,000	40,162
L-3 Communications Corp.:		
5.875%, 1/15/2015	160,000	154,400
Series B, 6.375%, 10/15/2015	80,000	78,800
Lucent Technologies, Inc., 6.45%, 3/15/2029 (b)	205,000	169,381
MasTec, Inc., 7.625%, 2/1/2017	65,000	61,100
Sanmina-SCI Corp.:		
144A, 7.741%**, 6/15/2010	24,000	23,940
8.125%, 3/1/2016	30,000	26,588
Seagate Technology HDD Holdings, 6.8%, 10/1/2016	90,000	87,750
SunGard Data Systems, Inc., 10.25%, 8/15/2015	135,000	138,037
Unisys Corp., 7.875%, 4/1/2008 (b)	105,000	104,869
Vangent, Inc., 9.625%, 2/15/2015	35,000	30,013
		1,004,940

Materials 3.0%

	Principal Amount ($)(a)	Value ($)
Appleton Papers, Inc., Series B, 8.125%, 6/15/2011 (b)	25,000	24,531
ARCO Chemical Co., 9.8%, 2/1/2020	440,000	426,800
Associated Materials, Inc., Step-up Coupon, 0% to 3/1/2009, 11.25% to 3/1/2014	95,000	60,800
Cascades, Inc., 7.25%, 2/15/2013	140,000	131,250
Chemtura Corp., 6.875%, 6/1/2016	80,000	75,200
Clondalkin Acquisition BV, 144A, 6.991%**, 12/15/2013	75,000	70,875
CPG International I, Inc.:		
10.5%, 7/1/2013	130,000	122,850
12.13%**, 7/1/2012	30,000	28,800
Exopack Holding Corp., 11.25%, 2/1/2014	160,000	156,800
Freeport-McMoRan Copper & Gold, Inc., 8.375%, 4/1/2017	75,000	80,437
GEO Specialty Chemicals, Inc., 144A, 13.729%**, 12/31/2009 (c)	283,000	212,250
Georgia-Pacific Corp., 144A, 7.125%, 1/15/2017	35,000	34,038
Gibraltar Industries, Inc., Series B, 8.0%, 12/1/2015	45,000	40,500
Hexcel Corp., 6.75%, 2/1/2015	195,000	191,100
Huntsman LLC, 11.625%, 10/15/2010	243,000	257,580
Innophos, Inc., 8.875%, 8/15/2014	35,000	34,825
Jefferson Smurfit Corp., 8.25%, 10/1/2012 (b)	75,000	73,875
Koppers Holdings, Inc., Step-up Coupon, 0% to 11/15/2009, 9.875% to 11/15/2014	130,000	109,200
Massey Energy Co.:		
6.625%, 11/15/2010	15,000	14,663
6.875%, 12/15/2013	70,000	65,975
Metals USA Holdings Corp., 144A, 11.231%**, 7/1/2012 (PIK)	70,000	57,400
Millar Western Forest Products Ltd., 7.75%, 11/15/2013	35,000	26,075
Momentive Performance Materials, Inc., 144A, 9.75%, 12/1/2014	60,000	55,200
Mueller Water Products, Inc., 7.375%, 6/1/2017	30,000	26,813
Neenah Foundry Co., 9.5%, 1/1/2017	15,000	12,075
NewMarket Corp., 7.125%, 12/15/2016	110,000	108,900

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		Principal Amount ($)(a)	Value ($)
NewPage Corp., 144A, 10.0%, 5/1/2012		110,000	110,550
OI European Group BV, 144A, 6.875%, 3/31/2017	EUR	65,000	90,757
Pliant Corp., 11.625%, 6/15/2009 (PIK)		10	10
Radnor Holdings Corp., 11.0%, 3/15/2010*		25,000	188
Smurfit-Stone Container Enterprises, Inc.:			
8.0%, 3/15/2017		90,000	86,962
8.375%, 7/1/2012		45,000	44,662
Steel Dynamics, Inc.:			
144A, 6.75%, 4/1/2015		75,000	72,375
144A, 7.375%, 11/1/2012		20,000	20,100
Terra Capital, Inc., Series B, 7.0%, 2/1/2017		110,000	107,525
The Mosaic Co., 144A, 7.625%, 12/1/2014		85,000	90,950
TriMas Corp., 9.875%, 6/15/2012		40,000	39,000
Witco Corp., 6.875%, 2/1/2026		35,000	28,175
Wolverine Tube, Inc., 10.5%, 4/1/2009		85,000	80,750
			3,270,816

Telecommunication Services 2.0%

BCM Ireland Preferred Equity Limited, 144A, 11.58%**, 2/15/2017 (PIK)	EUR	59,783	77,844
Cell C Property Ltd., 144A, 11.0%, 7/1/2015		180,000	153,900
Centennial Communications Corp.:			
10.0%, 1/1/2013 (b)		110,000	114,400
10.125%, 6/15/2013		40,000	42,000
Cincinnati Bell, Inc.:			
7.25%, 7/15/2013		100,000	100,250
8.375%, 1/15/2014 (b)		55,000	53,625
Cricket Communications, Inc., 144A, 9.375%, 11/1/2014		120,000	112,500
Embratel, Series B, 11.0%, 12/15/2008 (b)		20,000	20,950
Grupo Iusacell Cellular SA de CV, 10.0%, 3/31/2012		30,075	29,925
Intelsat Bermuda Ltd.:			
8.886%**, 1/15/2015 (b)		10,000	10,025
9.25%, 6/15/2016		35,000	35,175
11.25%, 6/15/2016		95,000	98,087
Intelsat Corp., 9.0%, 6/15/2016		40,000	40,300
Intelsat Ltd., 5.25%, 11/1/2008		35,000	34,563
Intelsat Subsidiary Holding Co., Ltd., 8.25%, 1/15/2013		80,000	80,400
iPCS, Inc., 7.036%**, 5/1/2013		35,000	32,988
MetroPCS Wireless, Inc., 9.25%, 11/1/2014		150,000	141,000
Millicom International Cellular SA, 10.0%, 12/1/2013		210,000	223,650
Nortel Networks Ltd., 144A, 9.493%**, 7/15/2011		85,000	82,875
Qwest Corp., 7.25%, 9/15/2025		20,000	18,800
Rural Cellular Corp., 9.875%, 2/1/2010		85,000	88,187
Stratos Global Corp., 9.875%, 2/15/2013		30,000	31,650
SunCom Wireless Holdings, Inc., 8.5%, 6/1/2013		100,000	103,500
US Unwired, Inc., Series B, 10.0%, 6/15/2012		110,000	116,619
Virgin Media FinancePLC:			
8.75%, 4/15/2014	EUR	85,000	121,478
8.75%, 4/15/2014		120,000	119,100
West Corp., 9.5%, 10/15/2014		55,000	53,900
			2,137,691

Utilities 2.7%

AES Corp.:		
144A, 8.0%, 10/15/2017	100,000	102,250
144A, 8.75%, 5/15/2013	290,000	302,688
Allegheny Energy Supply Co., LLC, 144A, 8.25%, 4/15/2012	370,000	394,975
CMS Energy Corp., 8.5%, 4/15/2011 (b)	225,000	242,372
Edison Mission Energy, 7.0%, 5/15/2017	85,000	83,513
Energy Future Holdings Corp., 144A, 10.875%, 11/1/2017	150,000	150,750
Intergas Finance BV, Series REG S, 6.875%, 11/4/2011	375,000	361,875
Mirant Americas Generation LLC, 8.3%, 5/1/2011	130,000	130,325
Mirant North America LLC, 7.375%, 12/31/2013	30,000	30,075
NRG Energy, Inc.:		
7.25%, 2/1/2014	165,000	160,875
7.375%, 2/1/2016	310,000	302,250
PSE&G Energy Holdings LLC, 10.0%, 10/1/2009 (b)	190,000	200,262
Regency Energy Partners LP, 8.375%, 12/15/2013	80,000	82,400
Reliant Energy, Inc., 7.875%, 6/15/2017 (b)	95,000	94,050
Sierra Pacific Resources:		
6.75%, 8/15/2017	105,000	106,217
8.625%, 3/15/2014	25,000	26,712
Texas Competitive Electric Holdings Co., LLC, 144A, 10.25%, 11/1/2015	220,000	217,800
		2,989,389
Total Corporate Bonds (Cost $36,413,141)		**35,127,976**

Commercial and Non-Agency Mortgage-Backed Securities 4.4%

Credit Suisse Mortgage Capital Certificates Trust, "A2", Series 2007-C1, 5.268%, 2/15/2040	1,174,000	1,175,372
Greenwich Capital Commercial Funding Corp., "A4", Series 2007-GG9, 5.444%, 3/10/2039	1,498,000	1,506,844
Morgan Stanley Capital I Trust, "A4", Series 2007-HQ11, 5.447%, 2/12/2044	720,000	721,707
Wachovia Bank Commercial Mortgage Trust, "A2", Series 2007-C32, 5.736%**, 6/15/2049	1,400,000	1,425,695
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $4,806,581)		**4,829,618**

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

		Principal Amount ($)(a)	Value ($)
Asset Backed 0.9%			
Credit Card Receivables			
Washington Mutual Master Note Trust, "C1", Series 2007-C1, 144A, 5.428%**, 5/15/2014 (Cost $954,141)		1,000,000	**960,625**
Government & Agency Obligations 44.4%			
Sovereign Bonds 26.9%			
Aries Vermogensverwaltung GmbH, Series C, REG S, 9.6%, 10/25/2014		250,000	321,750
Dominican Republic, Series REG S, 9.5%, 9/27/2011		226,596	240,191
Federal Republic of Germany, Series 94, 6.25%, 1/4/2024	EUR	1,600,000	2,781,521
Federative Republic of Brazil:			
6.0%, 1/17/2017		1,330,000	1,351,280
7.125%, 1/20/2037 (b)		310,000	350,300
7.875%, 3/7/2015 (b)		235,000	265,315
8.75%, 2/4/2025		260,000	329,550
8.875%, 10/14/2019 (b)		610,000	754,875
11.0%, 8/17/2040 (b)		655,000	875,080
12.5%, 1/5/2016	BRL	250,000	144,556
Government of Malaysia, Series 1/04, 4.305%, 2/27/2009	MYR	1,650,000	503,451
Government of Ukraine:			
144A, 6.75%, 11/14/2017		250,000	245,625
Series REG S, 7.65%, 6/11/2013		150,000	158,595
Kingdom of Spain, 3.15%, 1/31/2016	EUR	1,300,000	1,747,510
Province of Ontario, 4.7%, 6/2/2037	CAD	1,100,000	1,130,304
Province of Quebec, Series PO, 1.6%, 5/9/2013	JPY	126,000,000	1,152,151
Republic of Argentina:			
5.389%**, 8/3/2012 (PIK)		830,000	457,385
5.83%, 12/31/2033 (PIK)	ARS	375	137
Republic of Colombia:			
8.25%, 12/22/2014		145,000	165,300
10.0%, 1/23/2012 (b)		290,000	337,125
Republic of El Salvador, 144A, 7.65%, 6/15/2035 (b)		576,000	665,280
Republic of Ghana, 144A, 8.5%, 10/4/2017		100,000	105,375
Republic of Greece, 3.6%, 7/20/2016	EUR	1,400,000	1,911,310
Republic of Indonesia, 144A, 6.875%, 3/9/2017 (b)		340,000	352,750
Republic of Panama:			
7.125%, 1/29/2026 (b)		141,000	155,100
9.375%, 1/16/2023		570,000	741,000
Republic of Peru:			
6.55%, 3/14/2037		400,000	418,000
7.35%, 7/21/2025 (b)		975,000	1,111,500
Republic of Philippines:			
7.75%, 1/14/2031		100,000	115,375
8.0%, 1/15/2016 (b)		540,000	612,900
8.375%, 2/15/2011		20,000	21,500
9.375%, 1/18/2017		150,000	185,625
Republic of Serbia, 144A, Step-up Coupon, 3.75% to 11/1/2009, 6.75% to 11/1/2024		115,000	105,513
Republic of Turkey:			
7.0%, 9/26/2016		425,000	449,437
7.25%, 3/15/2015		70,000	74,900
11.75%, 6/15/2010		405,000	468,281
Republic of Uruguay:			
7.625%, 3/21/2036		101,000	110,090
8.0%, 11/18/2022		265,000	296,800
9.25%, 5/17/2017		105,000	126,525
Republic of Venezuela, 10.75%, 9/19/2013		650,000	695,500
Russian Federation, Series REG S, 7.5%, 3/31/2030		1,415,700	1,621,826
Russian Ministry of Finance, Series VII, 3.0%, 5/14/2011		250,000	231,285
Socialist Republic of Vietnam, 144A, 6.875%, 1/15/2016 (b)		540,000	572,400
United Kingdom Treasury Bond:			
5.0%, 3/7/2008	GBP	1,000,000	1,990,600
5.75%, 12/7/2009	GBP	1,050,000	2,143,847
United Mexican States:			
5.625%, 1/15/2017		510,000	516,885
Series A, 6.75%, 9/27/2034		83,000	91,674
			29,203,279
US Government Sponsored Agencies 2.8%			
Farmer Mac Guaranteed Trust, Series 2007-1, 144A, 5.125%, 4/19/2017		1,400,000	1,450,470
Tennessee Valley Authority, Series A, 6.79%, 5/23/2012		1,500,000	1,662,995
			3,113,465
US Treasury Obligations 14.7%			
US Treasury Bill, 3.7%***, 1/17/2008 (d)		723,000	722,205
US Treasury Bond, 5.25%, 11/15/2028		1,200,000	1,320,281
US Treasury Inflation Indexed Note, 2.0%, 4/15/2012		411,828	426,821
US Treasury Notes:			
3.375%, 11/30/2012		4,150,000	4,136,060
4.0%, 8/31/2009		6,460,000	6,554,884
4.25%, 11/15/2017		2,750,000	2,797,911
			15,958,162
Total Government & Agency Obligations (Cost $46,707,887)			**48,274,906**
Loan Participations and Assignments 2.6%			
Sovereign Loans 0.7%			
Credit Suisse (City of Kiev Ukraine), 144A, 8.25%, 11/26/2012		530,000	530,265
CSFB International (Exim Ukraine), 6.8%, 10/4/2012		205,000	199,075
			729,340
Senior Loans 1.9%**			
Advanced Medical Optics, Inc., Term Loan B, LIBOR plus 1.75%, 5.974%, 4/2/2014		29,774	28,054
Aleris International, Inc., Term Loan B, LIBOR plus 2.375%, 6.599%, 12/14/2013		39,799	37,313
Algoma Steel, Inc., LIBOR plus 2.5%, 6.724%, 6/30/2013		17,760	16,916

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

	Principal Amount ($)(a)	Value ($)
Bausch & Lomb, Inc., Term Loan B, LIBOR plus 3.25%, 7.474%, 4/11/2015	80,000	79,746
Buffets, Inc.:		
Letter of Credit, 7.7%, 5/1/2013	18,791	15,615
Term Loan B, 7.74%, 1/13/2011	141,109	117,262
Dollar General Corp., Term Loan B1, LIBOR plus 2.75%, 6.974%, 7/6/2014	50,000	46,035
Energy Future Holdings Corp.:		
Term Loan B1, LIBOR plus 3.5%, 7.724%, 10/10/2014	463,838	455,848
Term Loan B3, LIBOR plus 3.5%, 7.724%, 10/10/2014	299,250	294,950
First Data Corp., Term Loan B1, LIBOR plus 2.75%, 6.974%, 9/17/2014	158,700	150,829
General Nutrition Centers, Inc., Term Loan B, LIBOR plus 2.25%, 6.474%, 9/16/2013	29,925	27,331
Golden Nugget, 8.22%, 6/16/2014	55,000	50,050
Hawker Beechcraft, Inc.:		
Letter of Credit, LIBOR plus 2.0%, 6.224%, 3/26/2014	3,527	3,386
Term Loan B, LIBOR plus 2.0%, 6.224%, 3/26/2014	41,369	39,414
HCA, Inc., Term Loan A1, 6.83%, 11/18/2012	166,450	158,336
Hexion Specialty Chemicals:		
LIBOR plus 2.25%, 6.47%, 5/5/2013	9,728	9,448
6.85%, 5/5/2013	15,208	14,771
Local TV On Satellite LLC, Term Loan B, LIBOR plus 2.25%, 6.474%, 5/7/2013	29,850	28,171
Longview Power LLC:		
Demand Draw, 7.125%, 4/1/2014	7,640	7,401
Letter of Credit, 7.125%, 4/1/2014	4,000	3,876
Term Loan B, 7.25%, 4/1/2014	12,000	11,630
NewPage Corp, Term Loan B, LIBOR plus 3.0%, 7.224%, 11/5/2014	15,000	14,922
Sabre, Inc., Term Loan B, LIBOR plus 2.25%, 6.474%, 9/30/2014	48,590	44,282
Symbion, Inc.:		
Term Loan A, 8.21%, 8/23/2013	24,937	24,251
Term Loan B, 8.21%, 8/23/2014	24,937	24,158
Telesat Canada, Inc.:		
Term Loan B, LIBOR plus 3.0%, 7.224%, 10/31/2014	111,575	109,154
8.09%, 9/1/2014	24,409	23,873
9.0%, 10/31/2008	150,000	144,375
Tribune Co., Term Loan B, 8.244%, 5/24/2014	89,550	77,146
		2,058,543
Total Loan Participations and Assignments (Cost $2,844,154)		**2,787,883**

	Shares	Value ($)
Warrants 0.0%		
Dayton Superior Corp., 144A, Expiration Date 6/15/2009* (Cost $0)	10	**0**

	Units	Value ($)
Other Investments 0.1%		
Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029	85,000	72,134
IdleAire Technologies Corp. (Bond Unit), 144A, Step-up Coupon, 0% to 6/15/2008, 13.0% to 12/15/2012	160,000	88,000
Total Other Investments (Cost $194,223)		**160,134**

	Shares	Value ($)
Common Stocks 0.0%		
GEO Specialty Chemicals, Inc.* (Cost $19,822)	2,058	**1,749**
Convertible Preferred Stock 0.0%		
Consumer Discretionary		
ION Media Networks, Inc.:		
144A, 12.0%	10,000	605
Series AI, 144A, 12.0%	20,000	1,210
Total Convertible Preferred Stocks (Cost $4,191)		**1,815**
Securities Lending Collateral 7.4%		
Daily Assets Fund Institutional, 5.03% (e) (f) (Cost $7,995,630)	7,995,630	**7,995,630**
Cash Equivalents 13.3%		
Cash Management QP Trust, 4.67% (e) (Cost $14,474,916)	14,474,916	**14,474,916**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $114,414,686)†	105.4	**114,615,252**
Other Assets and Liabilities, Net	(5.4)	**(5,866,881)**
Net Assets	100.0	**108,748,371**

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

* 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.

Securities	Coupon	Maturity Date	Principal Amount		Acquisition Cost ($)	Value ($)
Congoleum Corp.	8.625%	8/1/2008	125,000	USD	105,994	93,750
Radnor Holdings Corp.	11.0%	3/15/2010	25,000	USD	17,152	188
					123,146	**98,938**

** 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, 2007.

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

† The cost for federal income tax purposes was $114,502,930. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $112,322. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,102,909 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,990,587.

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

(b) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $7,673,829 which is 7.1% of net assets.

(c) Security has a deferred interest payment of $9,219 from April 1, 2006.

(d) At December 31, 2007, this security, in part or in whole, has been segregated to cover initial margin requirements for open future contracts.

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

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

(g) Security issued in lieu of interest payment due 12/15/07, which has been deferred until 3/15/08. This security is deemed to be non-income producing.

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

PIK: Denotes that all or a portion of the income is paid in-kind.

LIBOR: Represents the London InterBank Offered Rate.

At December 31, 2007 the Portfolio had unfunded loan commitments of $35,442 which could be extended at the option of the borrower, pursuant to the following loan agreement:

Borrower	Unfunded Loan Commitment ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
Bausch & Lomb, Inc, Term Delay Draw B, 4/11/2015	19,950	19,950	—
Longview Power LLC, Term Delay Draw, 4/1/2014	4,586	4,689	103
Telesat Canada, Inc., Term Delay Draw, 9/1/2014	10,906	10,782	(124)
Total	**35,442**	**35,421**	**(21)**

At December 31, 2007, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Canadian Government Bond	3/19/2008	68	8,000,067	7,917,888	(82,179)
10 Year US Treasury Note	3/19/2008	28	3,190,773	3,174,938	(15,835)
United Kingdom Treasury Bond	3/27/2008	61	13,379,613	13,384,857	5,244
Total net unrealized depreciation					**(92,770)**

At December 31, 2007, open futures contracts sold were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Federal Republic of Germany Bond	3/6/2008	55	9,273,240	9,095,488	177,752
10 Year Australian Treasury Bond	3/17/2008	137	11,781,462	11,751,479	29,983
2 Year Federal Republic of Germany Bond	3/6/2008	28	4,260,499	4,231,085	29,414
10 Year Japanese Government Bond	3/11/2008	1	1,219,059	1,224,634	(5,575)
Total net unrealized appreciation					**231,574**

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

At December 31, 2007, the open credit default swap contracts sold were as follows:

Effective/Expiration Date	Notional Amount ($)	Cash Flows Received by the Portfolio	Underlying Debt Obligation	Unrealized Appreciation/ (Depreciation) ($)
10/4/2007 12/20/2008	50,000[1]	Fixed — 3.1%	Ford Motor Co., 6.0%, 8/1/2018	(204)
10/5/2007 12/20/2008	30,000[2]	Fixed — 3.15%	Ford Motor Co., 6.0%, 8/1/2018	(108)
10/23/2007 12/20/2008	110,000[3]	Fixed — 3.4%	Ford Motor Co., 6.0%, 8/1/2018	(256)
10/23/2007 12/20/2009	55,000[3]	Fixed — 4.65%	Ford Motor Co., 6.0%, 8/1/2018	(659)
12/11/2007 12/20/2009	60,000[4]	Fixed — 5.05%	Ford Motor Co., 6.0%, 8/1/2018	(1,141)
10/3/2007 12/20/2008	50,000[2]	Fixed — 3.2%	General Motors Corp., 7.125%, 7/15/2013	(237)
10/4/2007 12/20/2008	55,000[5]	Fixed — 2.6%	General Motors Corp., 7.125%, 7/15/2013	(653)
10/23/2007 12/20/2008	100,000[3]	Fixed — 3.0%	General Motors Corp., 7.125%, 7/15/2013	(877)
11/21/2007 12/20/2008	55,000[4]	Fixed — 4.02%	Tenet Healthcare Corp., 7.375%, 2/1/2013	158
Total net unrealized depreciation				**(3,977)**

Counterparty:

1 *Goldman Sachs & Co.*

2 *JP Morgan Chase Securities, Inc.*

3 *Morgan Stanley Co., Inc.*

4 *Merrill Lynch, Pierce, Fenner & Smith, Inc.*

5 *Citigroup Global Markets, Inc.*

At December 31, 2007, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
EUR	269,000	USD	399,927	1/3/2008	6,613
GBP	1,425,000	USD	2,943,893	1/17/2008	117,208
SEK	10,907,000	USD	1,705,098	3/19/2008	16,690
USD	1,287,834	CAD	1,302,000	3/19/2008	32,269
USD	1,723	EUR	1,200	1/3/2008	31
USD	1,780,161	NOK	9,709,000	3/19/2008	3,924
USD	6,627,136	SGD	9,500,000	3/19/2008	6,131
Total unrealized appreciation					**182,866**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
CAD	450,000	USD	452,143	1/17/2008	(3,423)
CHF	10,638,000	USD	9,435,033	3/19/2008	(4,066)
EUR	301,700	USD	440,304	2/4/2008	(1,057)
JPY	748,587,000	USD	6,757,115	3/19/2008	(1,733)
USD	2,981,338	AUD	3,378,000	3/19/2008	(30,026)
USD	1,409,629	EUR	950,000	1/17/2008	(22,287)
USD	6,484,166	EUR	4,414,000	3/19/2008	(25,949)
USD	6,897,482	GBP	3,380,000	3/19/2008	(183,706)
USD	1,383,585	JPY	150,000,000	1/17/2008	(38,479)
Total unrealized depreciation					**(310,726)**

Currency Abbreviations

ARS	Argentine Peso	EUR	Euro	NOK	Norwegian Krone
AUD	Australian Dollar	GBP	British Pound	SEK	Swedish Krona
BRL	Brazilian Real	JPY	Japanese Yen	SGD	Singapore Dollar
CAD	Canadian Dollar	MYR	Malaysian Ringitt	USD	United States Dollar
CHF	Swiss Franc				

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2007

Assets		
Investments:		
Investments in securities, at value (cost $91,944,140) — including $7,673,829 of securities loaned	$	92,144,706
Investment in Daily Assets Fund Institutional (cost $7,995,630)*		7,995,630
Investment in Cash Management QP Trust (cost $14,474,916)		14,474,916
Total investments, at value (cost $114,414,686)		114,615,252
Cash		292,335
Foreign currency, at value (cost $947,465)		933,604
Receivable for investments sold		96,635
Interest receivable		1,607,670
Receivable for variation margin on open futures		20,483
Foreign taxes recoverable		850
Unrealized appreciation on forward foreign currency exchange contracts		182,866
Other assets		2,413
Total assets		117,752,108

Liabilities		
Payable upon return of securities loaned		7,995,630
Payable for investments purchased		411,300
Payable for Portfolio shares redeemed		122,204
Unrealized depreciation on forward foreign currency exchange contracts		310,726
Unrealized depreciation on credit default swap contracts		3,977
Unrealized depreciation on unfunded loan commitments		21
Accrued management fee		53,102
Other accrued expenses and payables		106,777
Total liabilities		9,003,737
Net assets, at value	**$**	**108,748,371**

Net Assets Consist of		
Undistributed net investment income		6,660,644
Net unrealized appreciation (depreciation) on:		
Investments		200,566
Unfunded loan commitments		(21)
Credit default swaps		(3,977)
Futures		138,804
Foreign currency		(123,678)
Accumulated net realized gain (loss)		1,444,517
Paid-in capital		100,431,516
Net assets, at value	**$**	**108,748,371**
Class A		
Net Asset Value, offering and redemption price per share ($100,172,432 ÷ 8,561,326 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.70**
Class B		
Net Asset Value, offering and redemption price per share ($8,575,939 ÷ 737,068 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.64**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income		
Income:		
Interest (net of foreign taxes withheld of $3,040)	$	6,122,036
Interest — Cash Management QP Trust		641,132
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		27,956
Total Income		6,791,124
Expenses:		
Management fee		697,461
Services to shareholders		524
Custodian fee		31,960
Distribution service fee (Class B)		36,164
Legal fees		20,025
Audit fees		62,050
Record keeping fees (Class B)		17,161
Trustees' fees and expenses		18,025
Reports to shareholders		29,405
Other		40,620
Total expenses before expense reductions		953,395
Expense reductions		(10,545)
Total expenses after expense reductions		942,850
Net investment income (loss)		**5,848,274**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		1,668,466
Credit default swaps		(29,296)
Futures		973,956
Written options		(1,807)
Foreign currency		(251,539)
Payments by affiliates (see Note I)		3,963
		2,363,743
Change in net unrealized appreciation (depreciation) on:		
Investments		(2,521,550)
Unfunded loan commitments		(21)
Credit default swaps		(66,244)
Futures		126,379
Foreign currency		55,713
		(2,405,723)
Net gain (loss)		**(41,980)**
Net increase (decrease) in net assets resulting from operations	**$**	**5,806,294**

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, 2007	2006
Operations:		
Net investment income	$ 5,848,274	$ 5,491,929
Net realized gain (loss)	2,363,743	1,616,533
Change in net unrealized appreciation (depreciation)	(2,405,723)	1,741,758
Net increase (decrease) in net assets resulting from operations	5,806,294	8,850,220
Distributions to shareholders from:		
Net investment income:		
Class A	(5,451,249)	(3,447,308)
Class B	(1,430,805)	(1,139,329)
Net realized gains:		
Class A	—	(665,270)
Class B	—	(235,620)
Total distributions	(6,882,054)	(5,487,527)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	27,023,346	23,655,231
Reinvestment of distributions	5,451,249	4,112,578
Cost of shares redeemed	(17,567,946)	(15,500,783)
Net increase (decrease) in net assets from Class A share transactions	14,906,649	12,267,026
Class B		
Proceeds from shares sold	2,524,276	3,743,282
Reinvestment of distributions	1,430,805	1,374,949
Cost of shares redeemed	(19,503,873)	(7,442,604)
Net increase (decrease) in net assets from Class B share transactions	(15,548,792)	(2,324,373)
Increase (decrease) in net assets	(1,717,903)	13,305,346
Net assets at beginning of period	110,466,274	97,160,928
Net assets at end of period (including undistributed net investment income of $6,660,644 and $6,991,143, respectively)	**$ 108,748,371**	**$ 110,466,274**

Other Information		
Class A		
Shares outstanding at beginning of period	7,267,545	6,158,201
Shares sold	2,337,780	2,099,310
Shares issued to shareholders in reinvestment of distributions	483,267	375,578
Shares redeemed	(1,527,266)	(1,365,544)
Net increase (decrease) in Class A shares	1,293,781	1,109,344
Shares outstanding at end of period	**8,561,326**	**7,267,545**
Class B		
Shares outstanding at beginning of period	2,104,567	2,304,696
Shares sold	219,518	329,869
Shares issued to shareholders in reinvestment of distributions	127,295	125,911
Shares redeemed	(1,714,312)	(655,909)
Net increase (decrease) in Class B shares	(1,367,499)	(200,129)
Shares outstanding at end of period	**737,068**	**2,104,567**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$11.80**	**$11.50**	**$12.25**	**$11.82**	**$11.10**
Income (loss) from investment operations:					
Net investment income[a]	.63	.62	.65	.58	.41
Net realized and unrealized gain (loss)	(.01)	.36	(.39)	.39	.47
Total from investment operations	.62	.98	.26	.97	.88
Less distributions from:					
Net investment income	(.72)	(.57)	(.98)	—	(.15)
Net realized gains	—	(.11)	(.03)	(.54)	(.01)
Total distributions	(.72)	(.68)	(1.01)	(.54)	(.16)
Net asset value, end of period	**$11.70**	**$11.80**	**$11.50**	**$12.25**	**$11.82**
Total Return (%)	5.43[b]	8.98	2.38	8.60	7.85
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	100	86	71	62	62
Ratio of expenses before expense reductions (%)	.84	.85	.88	.84	.83
Ratio of expenses after expense reductions (%)	.83	.85	.88	.84	.83
Ratio of net investment income (loss) (%)	5.50	5.47	5.61	4.99	3.60
Portfolio turnover rate (%)	147	143	120	210	160

[a] *Based on average shares outstanding during the period.*
[b] *Total return would have been lower had certain expenses not been reduced.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003[a]
Selected Per Share Data					
Net asset value, beginning of period	**$11.74**	**$11.44**	**$12.17**	**$11.78**	**$11.44**
Income (loss) from investment operations:					
Net investment income[b]	.59	.59	.61	.53	.17
Net realized and unrealized gain (loss)	(.01)	.35	(.38)	.40	.17
Total from investment operations	.58	.94	.23	.93	.34
Less distributions from:					
Net investment income	(.68)	(.53)	(.93)	—	—
Net realized gains	—	(.11)	(.03)	(.54)	—
Total distributions	(.68)	(.64)	(.96)	(.54)	—
Net asset value, end of period	**$11.64**	**$11.74**	**$11.44**	**$12.17**	**$11.78**
Total Return (%)	5.07[c]	8.75[c]	1.92[c]	8.27	2.97**
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	9	25	26	21	8
Ratio of expenses before expense reductions (%)	1.21	1.24	1.25	1.22	1.26*
Ratio of expenses after expense reductions (%)	1.20	1.18	1.21	1.22	1.26*
Ratio of net investment income (loss) (%)	5.13	5.14	5.28	4.61	1.80*
Portfolio turnover rate (%)	147	143	120	210	160

[a] *For the period from May 1, 2003 (commencement of operations of Class B shares) to December 31, 2003.*
[b] *Based on average shares outstanding during the period.*
[c] *Total return would have been lower had certain expenses not been reduced.*
* *Annualized* ** *Not annualized*

Performance Summary

December 31, 2007

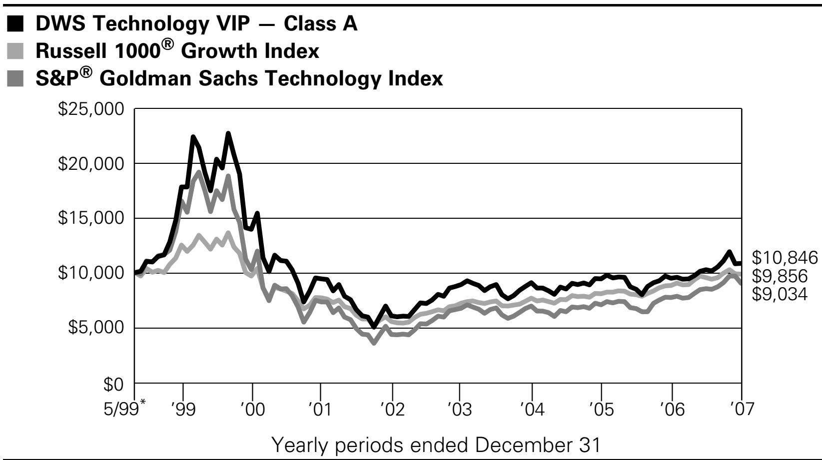
DWS Technology VIP

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .89% and 1.28% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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 this product's investments and risk profile.

Growth of an Assumed $10,000 Investment in DWS Technology VIP from 5/1/1999 to 12/31/2007



The Russell 1000® Growth Index is an unmanaged index that consists of those stocks in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.

The S&P® Goldman Sachs Technology Index is an unmanaged capitalization-weighted index based on a universe of technology-related stocks.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Technology VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$11,430	$11,947	$17,851	$10,846
	Average annual total return	14.30%	6.11%	12.29%	.94%
Russell 1000 Growth Index	Growth of $10,000	$11,181	$12,838	$17,706	$9,856
	Average annual total return	11.81%	8.68%	12.11%	–.17%
S&P Goldman Sachs Technology Index	Growth of $10,000	$11,694	$13,002	$20,630	$9,034
	Average annual total return	16.94%	9.14%	15.58%	–1.16%

DWS Technology VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$11,384	$11,807	$17,514	$16,683
	Average annual total return	13.84%	5.69%	11.86%	9.75%
Russell 1000 Growth Index	Growth of $10,000	$11,181	$12,838	$17,706	$16,118
	Average annual total return	11.81%	8.68%	12.11%	9.07%
S&P Goldman Sachs Technology Index	Growth of $10,000	$11,694	$13,002	$20,630	$18,390
	Average annual total return	16.94%	9.14%	15.58%	11.69%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 1999. Index returns began on April 30, 1999.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Technology VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,057.30	$1,055.10
Expenses Paid per $1,000*	$ 4.67	$ 6.63

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,020.67	$1,018.75
Expenses Paid per $1,000*	$ 4.58	$ 6.51

* *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
DWS Variable Series II — DWS Technology VIP	.90%	1.28%

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

These tables do not 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.

Management Summary

December 31, 2007

DWS Technology VIP

Technology stocks performed very well during 2007, as instability in the subprime mortgage sector and the related concerns about financial stocks caused investors to view technology as being a more defensive group. The Class A shares of DWS Technology VIP (unadjusted for contract charges) returned 14.30%, ahead of the 11.81% return of the Russell 1000® Growth Index and behind the 16.94% return of the S&P® Goldman Sachs Technology Index.

The Portfolio delivered its best relative performance in the software sector, where three mid-cap stocks — Activision, Inc., VMware, Inc. and Citrix Systems, Inc. — made the largest positive contributions. The communications equipment and IT services sectors were also sources of strength for the Portfolio. Performance was less favorable in hardware, where QLogic Corp. and Network Appliance Inc. both lost ground due to slowing demand in their respective industries. Also detracting was our positioning in electronic equipment, where the Portfolio's holdings in Taiwanese stocks lagged during the fourth quarter, and in the Internet sector, where an underweight in Amazon.com resulted in underperformance relative to the benchmark.[1]

Given the high correlation between corporate profits and technology spending, we expect that concerns about the US economy will result in a more challenging environment for the tech sector in 2008. Our response is to focus on companies with 1) a high percentage of revenues from outside of the United States, 2) lower exposure to corporate spending and 3) strong product cycles. We believe this approach can help the Portfolio to take advantage of individual stock opportunities even if the overall backdrop proves difficult in the year ahead.

Kelly P. Davis
Portfolio Manager
Deutsche Investment Management Americas Inc.

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 this product's investments and risk profile.

The Russell 1000 Growth Index is an unmanaged index that consists of those stocks in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.

The S&P Goldman Sachs Technology Index is an unmanaged, capitalization-weighted index based on a universe of technology-related stocks.

Index returns assume reinvestment of all dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

1 *"Overweight" means the Portfolio holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Portfolio holds a lower weighting.*

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Technology VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Information Technology:		
Computers & Peripherals	24%	19%
Software	21%	23%
Semiconductors & Semiconductor Equipment	16%	18%
Communications Equipment	16%	16%
Internet Software & Services	14%	13%
IT Services	5%	6%
Electronic Equipment & Instruments	2%	2%
Electronic Equipment	—	1%
Consumer Discretionary	1%	—
Industrials	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 190. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

DWS Technology VIP

	Shares	Value ($)
Common Stocks 99.8%		
Consumer Discretionary 0.7%		
Media		
Grupo Televisa SA (ADR)	46,100	**1,095,797**
Financials 0.5%		
Real Estate Investment Trusts		
DuPont Fabros Technology, Inc. (REIT)* (a)	39,700	**778,120**
Industrials 0.7%		
Commercial Services & Supplies		
Manpower, Inc.	19,800	**1,126,620**
Information Technology 97.9%		
Communications Equipment 15.8%		
Ciena Corp.* (a)	28,800	982,368
Cisco Systems, Inc.*	306,400	8,294,248
Foundry Networks, Inc.*	93,900	1,645,128
Juniper Networks, Inc.*	106,300	3,529,160
NICE Systems Ltd. (ADR)*	22,800	782,496
Nokia Oyj (ADR)	41,000	1,573,990
Polycom, Inc.*	62,800	1,744,584
QUALCOMM, Inc.	100,616	3,959,239
Research In Motion Ltd.*	20,100	2,279,340
		24,790,553
Computers & Peripherals 23.7%		
Apple, Inc.*	44,200	8,755,136
Asustek Computer, Inc.	550,309	1,640,851
Brocade Communications Systems, Inc.* (a)	82,500	605,550
Dell, Inc.*	217,600	5,333,376
Electronics for Imaging, Inc.* (a)	29,600	665,408
EMC Corp.*	81,300	1,506,489
Foxconn Technology Co., Ltd.	118,450	955,700
Hewlett-Packard Co.	168,100	8,485,688
Innolux Display Corp.	141,000	472,870
Innolux Display Corp. (GDR) 144A*	76,600	520,880
International Business Machines Corp.	48,600	5,253,660
Sun Microsystems, Inc.*	156,025	2,828,733
		37,024,341
Electronic Equipment & Instruments 2.4%		
Brightpoint, Inc.* (a)	55,500	852,480
Hon Hai Precision Industry Co., Ltd.	376,240	2,324,099
Phoenix Precision Technology Corp.	647,191	545,124
		3,721,703
Internet Software & Services 13.9%		
Akamai Technologies, Inc.* (a)	75,800	2,622,680
Alibaba.com Ltd.*	22,500	81,229
DealerTrack Holdings, Inc.* (a)	23,500	786,545
eBay, Inc.*	67,800	2,250,282
Google, Inc. "A"*	17,500	12,100,900
Yahoo!, Inc.*	166,900	3,882,094
		21,723,730
IT Services 4.7%		
Cognizant Technology Solutions Corp. "A"*	33,000	1,120,020
Fiserv, Inc.*	30,900	1,714,641
Global Payments, Inc.	69,000	3,209,880
Paychex, Inc. (a)	35,300	1,278,566
		7,323,107
Semiconductors & Semiconductor Equipment 15.9%		
Advanced Semiconductor Engineering, Inc.	1,153,671	1,146,068
Broadcom Corp. "A"*	40,500	1,058,670
Intel Corp.	414,789	11,058,275
Marvell Technology Group Ltd.*	95,800	1,339,284
Microchip Technology, Inc. (a)	67,300	2,114,566
MKS Instruments, Inc.*	66,900	1,280,466
National Semiconductor Corp.	70,400	1,593,856
NVIDIA Corp.*	39,550	1,345,491
PMC-Sierra, Inc.* (a)	105,800	691,932
SiRF Technology Holdings, Inc.* (a)	30,000	753,900
Taiwan Semiconductor Manufacturing Co., Ltd. (ADR)	141,406	1,408,404
Texas Instruments, Inc.	33,500	1,118,900
		24,909,812
Software 21.5%		
Activision, Inc.*	86,200	2,560,140
Adobe Systems, Inc.*	83,800	3,580,774
Citrix Systems, Inc.*	183,100	6,959,631
Electronic Arts, Inc.* (a)	46,100	2,692,701
Microsoft Corp.	292,846	10,425,317
Nintendo Co., Ltd.	1,400	850,007
Oracle Corp.*	166,700	3,764,086
Salesforce.com, Inc.* (a)	22,100	1,385,449
VMware, Inc. "A"* (a)	12,000	1,019,880
VanceInfo Technologies, Inc. (ADR)*	54,400	489,600
		33,727,585
Total Common Stocks (Cost $127,589,835)		**156,221,368**
Securities Lending Collateral 7.5%		
Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $11,628,324)	11,628,324	**11,628,324**
Cash Equivalents 0.4%		
Cash Management QP Trust, 4.67% (b) (Cost $663,453)	663,453	**663,453**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $139,881,612)†	107.7	**168,513,145**
Other Assets and Liabilities, Net	(7.7)	**(12,027,027)**
Net Assets	100.0	**156,486,118**

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

* *Non-income producing security.*

† *The cost for federal income tax purposes was $148,174,673. At December 31 2007, net unrealized appreciation for all securities based on tax cost was $20,338,472. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $35,704,604 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $15,366,132.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $11,221,438 which is 7.2% of net assets.*

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

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

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

ADR: American Depositary Receipt

GDR: Global 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, 2007

Assets	
Investments:	
Investments in securities, at value (cost $127,589,835) — including $11,221,438 of securities loaned	$ 156,221,368
Investment in Daily Assets Fund Institutional (cost $11,628,324)*	11,628,324
Investment in Cash Management QP Trust (cost $663,453)	663,453
Total investments, at value (cost $139,881,612)	168,513,145
Cash	7,520
Foreign currency, at value (cost $3,640)	3,631
Receivable for investments sold	2,480
Interest receivable	20,078
Dividends receivable	37,879
Receivable for Portfolio shares sold	3,384
Foreign taxes recoverable	274
Due from Advisor	2,067
Other assets	4,001
Total assets	168,594,459
Liabilities	
Payable for Portfolio shares redeemed	252,813
Payable upon return of securities loaned	11,628,324
Accrued management fee	101,492
Other accrued expenses and payables	125,712
Total liabilities	12,108,341
Net assets, at value	**$ 156,486,118**
Net Assets	
Net assets consist of:	
Accumulated net investment loss	(5,235)
Net unrealized appreciation (depreciation) on:	
Investments	28,631,533
Foreign currency	(9)
Accumulated net realized gain (loss)	(246,456,680)
Paid-in capital	374,316,509
Net assets, at value	**$ 156,486,118**
Class A	
Net Asset Value, offering and redemption price per share ($153,060,486 ÷ 14,290,167 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 10.71**
Class B	
Net Asset Value, offering and redemption price per share ($3,425,632 ÷ 325,361 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 10.53**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $60,252)	$ 1,013,319
Interest	2,367
Interest — Cash Management QP Trust	148,298
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	88,315
Total Income	1,252,299
Expenses:	
Management fee	1,237,197
Custodian and accounting fees	91,476
Distribution service fee (Class B)	17,126
Record keeping fees (Class B)	8,590
Services to shareholders	300
Professional fees	65,563
Trustees' fees and expenses	23,704
Reports to shareholders	62,941
Other	23,473
Total expenses before expense reductions	1,530,370
Expense reductions	(3,562)
Total expenses after expense reductions	1,526,808
Net investment income (loss)	**(274,509)**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	19,092,791
Written options	(58,736)
Foreign currency	7,540
	19,041,595
Change in net unrealized appreciation (depreciation) on:	
Investments	2,772,289
Written options	(46,329)
Foreign currency	(663)
	2,725,297
Net gain (loss)	**21,766,892**
Net increase (decrease) in net assets resulting from operations	**$ 21,492,383**

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, 2007	2006
Operations:		
Net investment income (loss)	$ (274,509)	$ (294,773)
Net realized gain (loss)	19,041,595	6,112,890
Net unrealized appreciation (depreciation)	2,725,297	(5,955,121)
Net increase (decrease) in net assets resulting from operations	21,492,383	(137,004)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	10,492,529	6,300,268
Cost of shares redeemed	(42,815,094)	(40,707,874)
Net increase (decrease) in net assets from Class A share transactions	(32,322,565)	(34,407,606)
Class B		
Proceeds from shares sold	1,326,815	2,069,789
Cost of shares redeemed	(12,807,358)	(4,331,077)
Net increase (decrease) in net assets from Class B share transactions	(11,480,543)	(2,261,288)
Increase (decrease) in net assets	(22,310,725)	(36,805,898)
Net assets at beginning of period	178,796,843	215,602,741
Net assets at end of period (including accumulated net investment loss of $5,235 and $2,464, respectively)	**$ 156,486,118**	**$ 178,796,843**

Other Information		
Class A		
Shares outstanding at beginning of period	17,575,288	21,420,473
Shares sold	994,111	695,699
Shares redeemed	(4,279,232)	(4,540,884)
Net increase (decrease) in Class A shares	(3,285,121)	(3,845,185)
Shares outstanding at end of period	**14,290,167**	**17,575,288**
Class B		
Shares outstanding at beginning of period	1,525,054	1,782,726
Shares sold	127,903	234,259
Shares redeemed	(1,327,596)	(491,931)
Net increase (decrease) in Class B shares	(1,199,693)	(257,672)
Shares outstanding at end of period	**325,361**	**1,525,054**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.37**	**$ 9.30**	**$ 9.01**	**$ 8.84**	**$ 6.02**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.02)	(.01)[b]	(.03)	.04	(.04)
Net realized and unrealized gain (loss)	1.36	.08	.36	.13	2.86
Total from investment operations	1.34	.07	.33	.17	2.82
Less distributions from:					
Net investment income	—	—	(.04)	—	—
Net asset value, end of period	**$10.71**	**$ 9.37**	**$ 9.30**	**$ 9.01**	**$ 8.84**
Total Return (%)	14.30	.75[b]	3.74	1.92	46.84
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	153	165	199	230	257
Ratio of expenses (%)	.91	.89	.86	.83	.86
Ratio of net investment income (loss) (%)	(.15)	(.12)[b]	(.36)	.43	(.50)
Portfolio turnover rate (%)	91	49	135	112	66

a *Based on average shares outstanding during the period.*

b *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.017 per share and an increase in the ratio of net investment income of 0.18%. Excluding this non-recurring income, total return would have been 0.19% lower.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.25**	**$ 9.21**	**$ 8.93**	**$ 8.80**	**$ 6.01**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.05)	(.04)[c]	(.07)	.01	(.07)
Net realized and unrealized gain (loss)	1.33	.08	.36	.12	2.86
Total from investment operations	1.28	.04	.29	.13	2.79
Less distributions from:					
Net investment income	—	—	(.01)	—	—
Net asset value, end of period	**$10.53**	**$ 9.25**	**$ 9.21**	**$ 8.93**	**$ 8.80**
Total Return (%)	13.84	.43[c]	3.27	1.48[b]	46.42
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	14	16	16	11
Ratio of expenses before expense reductions (%)	1.29	1.28	1.26	1.22	1.25
Ratio of expenses after expense reductions (%)	1.29	1.28	1.26	1.21	1.25
Ratio of net investment income (loss) (%)	(.53)	(.51)[c]	(.76)	.05	(.89)
Portfolio turnover rate (%)	91	49	135	112	66

a *Based on average shares outstanding during the period.*

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

c *Includes non-recurring income from the Advisor recorded as a result of an administrative proceeding regarding disclosure of brokerage allocation practices in connection with sales of DWS Scudder Funds. The non-recurring income resulted in an increase in net investment income of $0.017 per share and an increase in the ratio of net investment income of 0.18%. Excluding this non-recurring income, total return would have been 0.19% lower.*

Performance Summary

December 31, 2007

DWS Turner Mid Cap Growth VIP

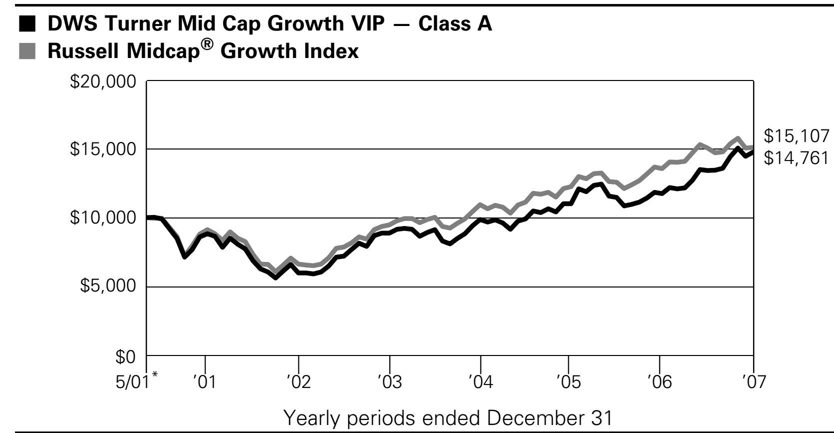
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Portfolio'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. While all share classes have the same underlying portfolio, their performance will differ.

The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2007 are .97% and 1.37% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2007.

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. Stocks of medium-sized 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 more-abrupt market movements. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

Portfolio returns shown for Life of Portfolio period for Class A shares and for 3-, 5- and Life of Class period shown for Class B shares reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

Growth of an Assumed $10,000 Investment in DWS Turner Mid Cap Growth VIP from 5/1/2001 to 12/31/2007



The Russell Midcap® Growth Index is an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly in an index.

Comparative Results

DWS Turner Mid Cap Growth VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$12,575	$14,970	$24,684	$14,761
	Average annual total return	25.75%	14.40%	19.81%	6.01%
Russell Midcap Growth Index	Growth of $10,000	$11,143	$13,822	$22,779	$15,107
	Average annual total return	11.43%	11.39%	17.90%	6.38%

DWS Turner Mid Cap Growth VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$12,513	$14,785	$24,221	$21,909
	Average annual total return	25.13%	13.92%	19.35%	15.33%
Russell Midcap Growth Index	Growth of $10,000	$11,143	$13,822	$22,779	$20,594
	Average annual total return	11.43%	11.39%	17.90%	14.04%

The growth of $10,000 is cumulative.

* *The Portfolio commenced operations on May 1, 2001. Index returns began on April 30, 2001.*

** *The Portfolio commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.*

Information About Your Portfolio's Expenses

DWS Turner Mid Cap Growth VIP

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 contract charges, 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 example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2007 to December 31, 2007).

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, 2007

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,099.90	$1,097.60
Expenses Paid per $	$ 4.87	$ 6.71

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/07	$1,000.00	$1,000.00
Ending Account Value 12/31/07	$1,020.57	$1,018.80
Expenses Paid per $1,000*	$ 4.69	$ 6.46

* *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**
DWS Variable Series II — DWS Turner Mid Cap Growth VIP	.92%	1.27%

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

These tables do not 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.

DWS Turner Mid Cap Growth VIP

In 2007, the broad equity market ended in positive territory, recording its fifth consecutive year of gains. In a role reversal, growth stocks assumed market leadership after seven years of underperformance. Value stocks actually posted negative results (the first time since 2002), while growth stocks generated double-digit returns. The relative underperformance of value stocks can largely be attributed to the financial services sector, which plummeted approximately 22% while representing one-third of the Russell 3000® Value Index on average. Another trend that reversed course during the year was the emergence of large-capitalization stocks. Similar to the shift in style, a large-cap bias has become increasingly evident throughout the year as mega-cap stocks outpaced their smaller-cap counterparts.

For the year, the DWS Turner Mid Cap Growth VIP Class A shares (unadjusted for contract charges) recorded a return of 25.75%, versus the 11.43% return posted by the Russell Midcap® Growth Index. Eight of the Portfolio's 10 sector positions beat their corresponding index sectors. Contributing the most to performance were growth-oriented holdings in the consumer discretionary, energy and materials/processing sectors, a combined 39% weighting. Stocks that added value included aQuantive, GameStop Corp, First Solar, Inc., Range Resources Corp. and Owens-Illinois, Inc. Detracting the most from performance were our holdings in the technology sector, a 14% weighting. Akamai Technologies, Inc. and F5 Networks Inc. were the largest detractors from performance.

Looking towards 2008, we believe slow-to-moderate economic growth should keep inflation and interest rates subdued and help companies to report higher earnings growth — notwithstanding some volatility along the way. Specific to growth stocks, in an environment where above-average growth becomes scarce, growth stocks become more valuable. This, coupled with the fact that growth stocks remain inexpensive relative to value stocks, should be supportive for our style of growth-stock investing.

Christopher K. McHugh	Tara Hedlund
	Jason Schrotberger
Lead Manager	*Portfolio Managers*

Turner Investment Partners, Inc., Subadvisor to the Portfolio

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. Stocks of medium-sized 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 more abrupt market movements. Please read this Portfolio's prospectus for specific details regarding this product's investments and risk profile.

The Russell Midcap Growth Index is an unmanaged index that measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 3000 Value Index is an unmanaged Index that measures the performance of those Russell 3000® Index companies with lower price-to-book ratios and lower forecasted growth values.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Portfolio management market commentary is as of December 31, 2007, and may not come to pass. This information is subject to change at any time based on market and other conditions. Past performance does not guarantee future results.

Portfolio Summary

DWS Turner Mid Cap Growth VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/07**	**12/31/06**
Common Stocks	100%	99%
Cash Equivalents	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/07**	**12/31/06**
Information Technology	23%	23%
Industrials	19%	11%
Health Care	12%	16%
Energy	12%	7%
Consumer Discretionary	11%	21%
Financials	9%	10%
Materials	5%	2%
Consumer Staples	4%	3%
Utilities	3%	1%
Telecommunication Services	2%	6%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 199. Information concerning portfolio holdings of the Portfolio as of month end will be posted to www.dws-scudder.com on or after the last day of the following month. In addition, the Portfolio's top ten holdings and other information about the Portfolio is posted on www.dws-scudder.com as of the calendar quarter-end on or after the 15th day following quarter-end.

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, 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.

Investment Portfolio

December 31, 2007

DWS Turner Mid Cap Growth VIP

	Shares	Value ($)
Common Stocks 100.3%		
Consumer Discretionary 11.1%		
Diversified Consumer Services 1.4%		
Apollo Group, Inc. "A"*	27,210	**1,908,782**
Hotels Restaurants & Leisure 4.1%		
Melco PBL Entertainment (Macau) Ltd. (ADR)*	65,560	757,874
WMS Industries, Inc.* (a)	37,765	1,383,709
Wynn Resorts Ltd. (a)	11,630	1,304,072
Yum! Brands, Inc.	54,090	2,070,024
		5,515,679
Internet & Catalog Retail 0.6%		
Priceline.com, Inc.* (a)	6,830	**784,494**
Media 0.8%		
Central European Media Enterprises Ltd. "A"* (a)	9,350	**1,084,413**
Specialty Retail 3.5%		
GameStop Corp. "A"*	39,310	2,441,544
Guess?, Inc. (a)	38,800	1,470,132
Urban Outfitters, Inc.*	25,050	682,863
		4,594,539
Textiles, Apparel & Luxury Goods 0.7%		
Under Armour, Inc. "A"* (a)	21,930	**957,683**
Consumer Staples 4.1%		
Beverages 1.3%		
Molson Coors Brewing Co. "B"	16,580	855,860
Pepsi Bottling Group, Inc.	23,070	910,342
		1,766,202
Food Products 2.8%		
Bunge Ltd.	10,400	1,210,664
H.J. Heinz Co.	24,490	1,143,193
Wm. Wrigley Jr. Co.	24,500	1,434,475
		3,788,332
Energy 12.2%		
Energy Equipment & Services 5.8%		
Diamond Offshore Drilling, Inc. (a)	14,420	2,047,640
Exterran Holdings, Inc.* (a)	13,100	1,071,580
National-Oilwell Varco, Inc.*	26,610	1,954,771
Tidewater, Inc.	13,290	729,089
Weatherford International Ltd.*	28,280	1,940,008
		7,743,088
Oil, Gas & Consumable Fuels 6.4%		
CONSOL Energy, Inc.	16,520	1,181,511
Quicksilver Resources, Inc.*	28,970	1,726,322
Range Resources Corp.	49,714	2,553,311
Southwestern Energy Co.*	21,440	1,194,637
Williams Companies, Inc.	53,790	1,924,606
		8,580,387
Financials 9.0%		
Capital Markets 5.0%		
Affiliated Managers Group, Inc.* (a)	7,824	919,007
BlackRock, Inc. (a)	5,010	1,086,168
Northern Trust Corp.	22,810	1,746,790
T. Rowe Price Group, Inc.	48,530	2,954,506
		6,706,471
Diversified Financial Services 3.2%		
IntercontinentalExchange, Inc.*	12,040	2,317,700
Nymex Holdings, Inc. (a)	14,350	1,917,304
		4,235,004
Insurance 0.8%		
Aon Corp.	23,560	**1,123,576**
Health Care 12.3%		
Biotechnology 2.7%		
Alexion Pharmaceuticals, Inc.* (a)	17,950	1,346,788
BioMarin Pharmaceutical, Inc.*	33,770	1,195,458
United Therapeutics Corp.* (a)	10,360	1,011,654
		3,553,900
Health Care Equipment & Supplies 3.4%		
DENTSPLY International, Inc.	24,390	1,098,038
Hologic, Inc.*	13,730	942,427
Intuitive Surgical, Inc.*	5,470	1,775,015
Inverness Medical Innovations, Inc.* (a)	12,720	714,610
		4,530,090
Health Care Providers & Services 2.4%		
Express Scripts, Inc.*	29,310	2,139,630
Henry Schein, Inc.* (a)	17,940	1,101,516
		3,241,146
Life Sciences Tools & Services 1.3%		
Charles River Laboratories International, Inc.*	17,260	1,135,708
Waters Corp.*	8,390	663,397
		1,799,105
Pharmaceuticals 2.5%		
Allergan, Inc.	30,870	1,983,089
Shire PLC (ADR) (a)	19,560	1,348,662
		3,331,751
Industrials 18.7%		
Aerospace & Defense 2.3%		
BE Aerospace, Inc.*	22,680	1,199,772
Precision Castparts Corp.	13,850	1,920,995
		3,120,767
Air Freight & Logistics 1.9%		
C.H. Robinson Worldwide, Inc. (a)	25,420	1,375,730
Expeditors International of Washington, Inc.	27,200	1,215,296
		2,591,026
Commercial Services & Supplies 2.7%		
Covanta Holding Corp.* (a)	25,500	705,330
FTI Consulting, Inc.* (a)	17,760	1,094,726
Stericycle, Inc.*	19,270	1,144,638
Waste Connections, Inc.*	21,050	650,445
		3,595,139

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

	Shares	Value ($)
Construction & Engineering 0.9%		
Shaw Group, Inc.*	19,150	**1,157,426**
Electrical Equipment 4.0%		
AMETEK, Inc.	37,040	1,734,954
First Solar, Inc.*	8,390	2,241,304
Roper Industries, Inc.	20,870	1,305,210
		5,281,468
Industrial Conglomerates 1.0%		
McDermott International, Inc.*	23,220	**1,370,677**
Machinery 5.9%		
AGCO Corp.* (a)	28,300	1,923,834
Flowserve Corp.	19,640	1,889,368
Harsco Corp.	27,250	1,745,907
Manitowoc Co., Inc.	23,300	1,137,739
SPX Corp.	11,790	1,212,602
		7,909,450
Information Technology 22.6%		
Communications Equipment 2.2%		
Foundry Networks, Inc.*	47,800	837,456
Juniper Networks, Inc.*	61,620	2,045,784
		2,883,240
Computers & Peripherals 1.1%		
Seagate Technology	55,970	**1,427,235**
Electronic Equipment & Instruments 1.0%		
Dolby Laboratories, Inc. "A"*	27,870	**1,385,696**
Internet Software & Services 4.3%		
Equinix, Inc.*	7,530	761,057
Omniture, Inc.*	24,000	798,960
SINA Corp.*	17,800	788,718
VeriSign, Inc.* (a)	63,120	2,373,943
VistaPrint Ltd.* (a)	25,510	1,093,104
		5,815,782
IT Services 1.7%		
MasterCard, Inc. "A" (a)	10,590	**2,278,968**
Semiconductors & Semiconductor Equipment 6.4%		
Atheros Communications*	32,440	990,718
Cavium Networks, Inc.* (a)	28,450	654,919
Cypress Semiconductor Corp.*	24,580	885,618
MEMC Electronic Materials, Inc.*	25,770	2,280,387
NVIDIA Corp.*	39,715	1,351,104
Silicon Laboratories, Inc.* (a)	22,270	833,566
Varian Semiconductor Equipment Associates, Inc.*	44,080	1,630,960
		8,627,272
Software 5.9%		
Activision, Inc.*	42,670	1,267,299
Citrix Systems, Inc.*	46,990	1,786,090
Electronic Arts, Inc.*	33,700	1,968,417
McAfee, Inc.*	17,540	657,750
Nuance Communications, Inc.*	33,900	633,252
Salesforce.com, Inc.* (a)	25,450	1,595,460
		7,908,268
Materials 5.3%		
Chemicals 2.6%		
Air Products & Chemicals, Inc.	17,510	1,727,011
The Mosaic Co.*	18,550	1,750,007
		3,477,018
Containers & Packaging 1.8%		
Owens-Illinois, Inc.*	49,480	**2,449,260**
Metals & Mining 0.9%		
Steel Dynamics, Inc. (a)	20,380	**1,214,037**
Telecommunication Services 1.9%		
Wireless Telecommunication Services		
Crown Castle International Corp.*	32,040	1,332,864
Millicom International Cellular SA*	4,730	557,856
SBA Communications Corp. "A"*	19,500	659,880
		2,550,600
Utilities 3.1%		
Electric Utilities 0.8%		
Allegheny Energy, Inc.	17,760	**1,129,714**
Gas Utilities 0.9%		
Questar Corp.	21,300	**1,152,330**
Independent Power Producers & Energy Traders 1.4%		
NRG Energy, Inc.* (a)	43,600	**1,889,624**
Total Common Stocks (Cost $99,977,964)		**134,459,639**

Securities Lending Collateral 19.4%

Daily Assets Fund Institutional, 5.03% (b) (c) (Cost $26,025,007)	26,025,007	**26,025,007**

Cash Equivalents 0.4%

Cash Management QP Trust, 4.67% (b) (Cost $578,827)	578,827	**578,827**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $126,581,798)†	120.1	**161,063,473**
Other Assets and Liabilities, Net	(20.1)	**(26,998,578)**
Net Assets	100.0	**134,064,895**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $126,708,015. At December 31, 2007, net unrealized appreciation for all securities based on tax cost was $34,355,458. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $35,621,423 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,265,965.*

(a) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2007 amounted to $25,410,921 which is 19.0% of net assets.*

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

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

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, 2007

Assets	
Investments:	
Investments in securities, at value (cost $99,977,964) — including $25,410,921 of securities loaned	$ 134,459,639
Investment in Daily Assets Fund Institutional (cost $26,025,007)*	26,025,007
Investment in Cash Management QP Trust (cost $578,827)	578,827
Total investments, at value (cost $126,581,798)	161,063,473
Cash	15,147
Dividends receivable	63,212
Interest receivable	17,861
Receivable for Portfolio shares sold	14,241
Due from Advisor	2,553
Other assets	3,069
Total assets	161,179,556

Liabilities	
Payable upon return of securities loaned	26,025,007
Payable for investments purchased	662,526
Payable for Portfolio shares redeemed	239,978
Accrued management fee	94,830
Other accrued expenses and payables	92,320
Total liabilities	27,114,661
Net assets, at value	**$ 134,064,895**

Net Assets Consist of	
Accumulated net investment loss	(4,298)
Net unrealized appreciation (depreciation) on investments	34,481,675
Accumulated net realized gain (loss)	23,021,594
Paid-in capital	76,565,924
Net assets, at value	**$ 134,064,895**
Class A **Net Asset Value,** offering and redemption price per share ($128,764,146 ÷ 10,261,710 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.55**
Class B **Net Asset Value,** offering and redemption price per share ($5,300,749 ÷ 432,386 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.26**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2007

Investment Income	
Income:	
Dividends	$ 598,612
Interest — Cash Management QP Trust	90,717
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	97,855
Total Income	787,184
Expenses:	
Management fee	1,067,206
Services to shareholders	190
Custodian and accounting fees	100,641
Distribution service fee (Class B)	30,511
Record keeping fees (Class B)	15,831
Professional fees	57,832
Trustees' fees and expenses	23,179
Reports to shareholders	6,299
Other	16,953
Total expenses before expense reductions	1,318,642
Expense reductions	(3,384)
Total expenses after expense reductions	1,315,258
Net investment income (loss)	**(528,074)**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from investments	23,736,292
Change in net unrealized appreciation (depreciation) on investments	7,277,206
Net gain (loss)	**31,013,498**
Net increase (decrease) in net assets resulting from operations	**$ 30,485,424**

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, 2007	2006
Operations:		
Net investment income (loss)	$ (528,074)	$ (189,600)
Net realized gain (loss)	23,736,292	11,845,281
Change in net unrealized appreciation (depreciation)	7,277,206	(2,726,806)
Net increase (decrease) in net assets resulting from operations	30,485,424	8,928,875
Distributions to shareholders from:		
Net realized gains:		
Class A	(9,828,253)	(9,522,910)
Class B	(2,183,905)	(2,156,952)
Total distributions	(12,012,158)	(11,679,862)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	17,681,217	8,775,738
Reinvestment of distributions	9,828,253	9,522,910
Cost of shares redeemed	(33,144,770)	(20,986,374)
Net increase (decrease) in net assets from Class A share transactions	(5,635,300)	(2,687,726)
Class B		
Proceeds from shares sold	706,509	3,506,164
Reinvestment of distributions	2,183,905	2,156,952
Cost of shares redeemed	(24,376,442)	(6,329,936)
Net increase (decrease) in net assets from Class B share transactions	(21,486,028)	(666,820)
Increase (decrease) in net assets	(8,648,062)	(6,105,533)
Net assets at beginning of period	142,712,957	148,818,490
Net assets at end of period (including accumulated net investment loss of $4,298 and $2,089, respectively)	**$ 134,064,895**	**$ 142,712,957**

Other Information		
Class A		
Shares outstanding at beginning of period	10,696,292	11,034,621
Shares sold	1,504,234	775,698
Shares issued to shareholders in reinvestment of distributions	950,508	829,522
Shares redeemed	(2,889,324)	(1,943,549)
Net increase (decrease) in Class A shares	(434,582)	(338,329)
Shares outstanding at end of period	**10,261,710**	**10,696,292**
Class B		
Shares outstanding at beginning of period	2,410,110	2,497,836
Shares sold	61,336	324,988
Shares issued to shareholders in reinvestment of distributions	215,587	190,543
Shares redeemed	(2,254,647)	(603,257)
Net increase (decrease) in Class B shares	(1,977,724)	(87,726)
Shares outstanding at end of period	**432,386**	**2,410,110**

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

Financial Highlights

Class A

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$10.92**	**$11.02**	**$ 9.86**	**$ 8.88**	**$ 5.98**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.04)	(.01)	(.05)	(.07)	(.06)
Net realized and unrealized gain (loss)	2.64	.77	1.21	1.05	2.96
Total from investment operations	2.60	.76	1.16	.98	2.90
Less distributions from:					
Net realized gains	(.97)	(.86)	—	—	—
Net asset value, end of period	**$12.55**	**$10.92**	**$11.02**	**$ 9.86**	**$ 8.88**
Total Return (%)	25.75	6.52	11.76	11.04	48.49
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	129	117	122	118	110
Ratio of expenses (%)	.95	.97	1.11	1.19	1.18
Ratio of net investment income (loss) (%)	(.36)	(.06)	(.56)	(.82)	(.90)
Portfolio turnover rate (%)	133	148	151	174	155

a *Based on average shares outstanding during the period.*

Class B

Years Ended December 31,	2007	2006	2005	2004	2003
Selected Per Share Data					
Net asset value, beginning of period	**$10.73**	**$10.88**	**$ 9.78**	**$ 8.84**	**$ 5.97**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.08)	(.05)	(.09)	(.10)	(.09)
Net realized and unrealized gain (loss)	2.58	.76	1.19	1.04	2.96
Total from investment operations	2.50	.71	1.10	.94	2.87
Less distributions from:					
Net realized gains	(.97)	(.86)	—	—	—
Net asset value, end of period	**$12.26**	**$10.73**	**$10.88**	**$ 9.78**	**$ 8.84**
Total Return (%)	25.13	6.21	11.25[b]	10.63	48.07
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	5	26	27	23	13
Ratio of expenses before expense reductions (%)	1.34	1.37	1.51	1.56	1.57
Ratio of expenses after expense reductions (%)	1.34	1.37	1.48	1.56	1.57
Ratio of net investment income (loss) (%)	(.75)	(.46)	(.93)	(1.19)	(1.29)
Portfolio turnover rate (%)	133	148	151	174	155

a *Based on an average shares outstanding during the period.*
b *Total return would have been lower had certain expenses not been reduced.*

Notes to Financial Statements

A. Significant Accounting Policies

DWS 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 twenty-one portfolios (hereinafter referred to individually as "Portfolio" or collectively as "Portfolios").

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 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 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. DWS Money Market VIP values all securities utilizing the amortized cost method permitted in accordance with Rule 2a-7 under the 1940 Act and certain conditions therein. Under this method, which does not take into account unrealized capital gains or losses on securities, an instrument is initially valued at its cost and thereafter assumes a constant accretion/amortization rate to maturity of any discount or premium.

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 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. Certain 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.

In September 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. As of December 31, 2007, management does not believe the adoption of FAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

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 gain/appreciation and loss/depreciation on investments.

Repurchase Agreements. Each Portfolio may enter into repurchase agreements with certain banks and broker/dealers whereby each 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 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 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 claim on the collateral may be subject to legal proceedings.

Securities Lending. Each Portfolio, except DWS Money Market VIP, 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 issuer of 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 Portfolio receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the 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.

Interest Rate Swap Contracts. DWS Balanced VIP, DWS Government & Agency Securities VIP and DWS Strategic Income VIP may enter into interest rate swap transactions to reduce the interest rate risk inherent in the Portfolio's underlying investments. The use of interest rate swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Portfolio would agree to pay to the other party to the interest rate swap (which is known as the "counterparty") a fixed rate payment in exchange for the counterparty agreeing to pay to the Portfolio a variable rate payment, or the Portfolio would agree to receive from the counterparty a fixed rate payment in exchange for the counterparty agreeing to receive from the Portfolio a variable rate payment. The payment obligations would be based on the notional amount of the swap. Certain risks may arise when entering into swap transactions including counterparty default, liquidity or unfavorable changes in interest rates. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations. The value of the swap is adjusted daily based upon a price supplied by the counterparty and the change in value is recorded as unrealized appreciation or depreciation.

Credit Default Swap Contracts. A credit default swap is a contract between a buyer and a seller of protection against a pre-defined credit event. DWS Balanced VIP, DWS High Income VIP and DWS Strategic Income VIP may buy or sell credit default swap contracts to seek to increase the Portfolio's income, to add leverage to the Portfolio, or to hedge the risk of default on portfolio securities. As a seller in the credit default swap contract, the Portfolio would be required to pay the par (or other agreed-upon) value of the referenced debt obligation to the counterparty in the event of a default by a third party, such as a US or foreign corporate issuer, on the debt obligation, which would likely result in a loss to the Portfolio. In return, the Portfolio would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Portfolio would keep the stream of payments and would have no payment obligations. The Portfolio may also buy credit default swap contracts in order to hedge against the risk of default of debt securities, in which case the Portfolio would function as the counterparty referenced above. This would involve the risk that the contract may expire worthless. It would also involve credit risk — that the seller may fail to satisfy its payment obligations to the Portfolio in the event of a default. When the Portfolio sells a credit default swap contract it will "cover" its commitment. This may be achieved by, among other methods, maintaining cash or liquid assets equal to the aggregate notional value of the underlying debt obligations for all outstanding credit default swap contracts sold by the Portfolio.

Credit default swap contracts are marked to market daily based upon quotations from the counterparty and the change in value, if any, is recorded daily as unrealized gain or loss. An upfront payment made by the Portfolio is recorded as an asset on the statement of assets and liabilities. An upfront payment received by the Portfolio is recorded as a liability on the statement of assets and liabilities. Under the terms of the credit default swap contracts, the Portfolio receives or makes payments semi-annually based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss on the statement of operations. Payments received or made as a result of a credit event or termination of the contract are recognized, net of a proportional amount of the upfront payment, as realized gains or losses.

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, except for DWS Money Market VIP, 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). Each Portfolio, except for DWS Money Market VIP, 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. Each Portfolio, except for DWS Money Market VIP, 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.

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.

Loan Participations and Assignments. DWS Balanced VIP, DWS High Income VIP and DWS Strategic Income VIP may invest in Loan Participations and Assignments. Loan Participations and Assignments are portions of loans originated by banks and sold in pieces to investors. These US dollar-denominated fixed and floating rate loans ("Loans") in which the Portfolio invests, are arranged between the borrower and one or more financial institutions ("Lenders"). These Loans may take the form of Senior Loans, which are corporate obligations often issued in connection with recapitalizations, acquisitions, leveraged buy-outs and refinancings, and Sovereign Loans, which are debt instruments between a foreign sovereign entity and one or more financial institutions. The Portfolio invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of Loans from third parties ("Assignments"). Participations typically result in the Portfolio having a contractual relationship only with the Lender, not with the borrower. The Portfolio has the right to receive payments of principal, interest and any fees to which it is entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Portfolio generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, or any rights of set-off against the borrower, and the Portfolio will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Portfolio assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Portfolio having a direct contractual relationship with the borrower, and the Portfolio may enforce compliance by the borrower with the terms of the loan agreement. All Loan Participations and Assignments involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

Mortgage Dollar Rolls. DWS Core Fixed Income VIP, DWS Government & Agency Securities VIP and DWS Balanced VIP may enter into mortgage dollar rolls in which the 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. The 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.

Certain risks may arise upon entering into mortgage dollar rolls from the potential inability of counterparties to meet the terms of their commitments. Additionally, the value of such securities may change adversely before the Portfolio is able to repurchase them. There can be no assurance that the Portfolio's use of the cash that it receives from a mortgage dollar roll will provide a return that exceeds its costs.

When-Issued/Delayed Delivery Securities. DWS Balanced VIP, DWS Core Fixed Income VIP, DWS Government & Agency Securities VIP, DWS High Income VIP and DWS Strategic Income VIP may purchase securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Portfolios enter 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 Portfolios until payment takes place. At the time the Portfolios enter 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's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Accordingly, each Portfolio paid no federal income taxes and no federal income tax provision was required.

Additionally, based on the Portfolios' understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which they invest, the Portfolios will provide for foreign taxes, and where appropriate, deferred foreign taxes.

At December 31, 2007, 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 ($)	Expiration Date	Capital Loss Carryforward Utilized ($)
DWS Balanced VIP*	1,788,000	12/31/2009	46,988,000
	1,388,000	12/31/2011	

Portfolio	Capital Loss Carryforward ($)	Expiration Date	Capital Loss Carryforward Utilized ($)
DWS Core Fixed Income VIP	3,813,000	12/31/2014	—
	50,000	12/31/2015	
DWS Government & Agency Securities VIP	14,000	12/31/2013	—
	1,337,000	12/31/2014	
	924,000	12/31/2015	
DWS High Income VIP	16,114,000	12/31/2008	—
	22,935,000	12/31/2009	
	55,108,000	12/31/2010	
	13,877,000	12/31/2011	
	3,844,000	12/31/2014	
	858,000	12/31/2015	
DWS Janus Growth & Income VIP	—	—	15,655,000
DWS Mid Cap Growth VIP	20,155,000	12/31/2011	8,380,000
DWS Money Market VIP	—	—	1,800
DWS Small Cap Growth VIP	11,300,000	12/31/2009	30,000,000
	72,000,000	12/31/2010	
	4,100,000	12/31/2011	
DWS Strategic Income VIP	—	—	23,340
DWS Technology VIP	73,056,000	12/31/2009	13,637,000
	93,499,000	12/31/2010	
	71,517,000	12/31/2011	

* *Certain of these losses may be subject to limitations under sections 381–384 of the Internal Revenue Code.*

In addition, from November 1, 2007 through December 31, 2007, the following Portfolios incurred net realized capital losses. 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, 2008.

Portfolio	
DWS Blue Chip VIP	3,680,000
DWS Core Fixed Income VIP	717,000
DWS Government & Agency Securities VIP	585,000
DWS High Income VIP	1,327,000
DWS Mid Cap Growth VIP	400,000

The Portfolios have reviewed the tax positions for each of the three open tax years as of December 31, 2007 and have determined that no provision for income tax is required in the Portfolios' financial statements. The Portfolios' federal tax returns for the prior three fiscal years remains subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Distributions of net investment income, if any, for each Portfolio, except DWS Money Market VIP, are made annually. 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. All of the net investment income of DWS Money Market VIP 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. These differences primarily relate to net operating losses, investments in foreign denominated investments, investments in forward foreign currency exchange contracts, investments in futures, income received from Passive Foreign Investment Companies and Real Estate Investment Trusts and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, each Portfolio may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Portfolio.

At December 31, 2007, 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 ($)	Unrealized Appreciation (Depreciation) on Investments ($)
DWS Balanced VIP	17,873,345	—	(3,176,000)	47,302,499
DWS Blue Chip VIP	22,768,418	18,254,623	—	12,641,773
DWS Core Fixed Income VIP	16,739,742	—	(3,863,000)	(3,039,437)
DWS Davis Venture Value VIP	7,864,318	31,468,257	—	116,753,589
DWS Dreman High Return Equity VIP	45,097,725	96,459,670	—	153,927,327
DWS Dreman Small Mid Cap Value VIP	41,725,108	134,537,180	—	13,422,040
DWS Global Thematic VIP	21,056,765	19,678,184	—	(4,083,639)
DWS Government & Agency Securities VIP	10,244,329	—	(2,275,000)	635,734
DWS High Income VIP	24,600,992	—	(112,736,000)	(17,616,454)
DWS International Select Equity VIP	31,088,908	29,324,473	—	38,738,966
DWS Janus Growth & Income VIP	1,511,363	11,064,755	—	32,590,566
DWS Large Cap Value VIP	16,236,155	40,280,218	—	31,678,627
DWS Mid Cap Growth VIP	—	—	(20,155,000)	12,286,130
DWS Small Cap Growth VIP	—	—	(87,400,000)	30,942,311
DWS Strategic Income VIP	7,048,954	908,461	—	112,322
DWS Technology VIP	—	—	(238,072,000)	20,338,472
DWS Turner Mid Cap Growth VIP	5,018,188	18,129,623	—	34,355,458

In addition, the tax character of distributions paid by the Portfolios is summarized as follows:

	Distributions from ordinary income ($)*		Distributions from long-term capital gains ($)	
	Years Ended December 31,		Years Ended December 31,	
Portfolio	2007	2006	2007	2006
DWS Balanced VIP	19,822,898	16,639,374	—	—
DWS Blue Chip VIP	29,126,324	11,866,416	14,583,277	8,865,566
DWS Core Fixed Income VIP	15,592,450	12,044,592	—	54,870
DWS Davis Venture Value VIP	2,795,861	2,297,497	5,303,652	—
DWS Dreman High Return Equity VIP	15,617,453	18,038,346	9,463,569	44,395,610
DWS Dreman Small Mid Cap Value VIP	29,285,554	5,725,641	68,746,041	47,358,429
DWS Global Thematic VIP	14,911,083	1,387,851	12,511,360	8,033,573
DWS Government & Agency Securities VIP	11,682,544	10,381,592	—	—
DWS High Income VIP	28,464,473	30,330,043	—	—
DWS International Select Equity VIP	11,746,411	5,425,661	24,138,562	—
DWS Janus Growth & Income VIP	1,145,877	1,319,542	—	—
DWS Large Cap Value VIP	7,889,590	4,756,584	8,775,628	—
DWS Money Market VIP	17,550,147	14,556,487	—	—
DWS Strategic Income VIP	6,882,054	5,462,385	—	25,142
DWS Turner Mid Cap Growth VIP	—	—	12,012,158	11,679,862

* *For tax purposes, short-term capital gain 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 each Portfolio in proportion to its relative net assets.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the 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 each Portfolio, with the exception of securities in default of principal.

B. Purchases and Sales of Securities

During the year ended December 31, 2007, purchases and sales of investment transactions (excluding short-term investments) were as follows:

Portfolio	Purchases ($)	Sales ($)
DWS Balanced VIP excluding US Treasury Obligations and mortgage dollar roll transactions	872,312,101	984,871,413
US Treasury Obligations	184,105,640	191,036,369
mortgage dollar roll transactions	53,941,531	53,791,508
DWS Blue Chip VIP	844,217,552	964,021,997
DWS Core Fixed Income VIP excluding US Treasury Obligations and mortgage dollar roll transactions	191,133,690	283,257,959
US Treasury Obligations	499,865,461	503,204,559
mortgage dollar roll transactions	39,664,115	43,728,427
DWS Davis Venture Value VIP	36,310,234	143,007,549
DWS Dreman High Return Equity VIP	273,936,835	582,135,059
DWS Dreman Small Mid Cap Value VIP	616,279,362	774,950,695
DWS Global Thematic VIP	320,123,774	336,945,786
DWS Government & Agency Securities VIP excluding US Treasury Obligations and mortgage dollar roll transactions	1,004,530,722	1,017,184,508
US Treasury Obligations	26,025,195	35,079,250
mortgage dollar roll transactions	363,768,140	361,788,464
DWS High Income VIP	190,435,304	284,335,711
DWS International Select Equity VIP	309,615,931	395,591,503
DWS Janus Growth & Income VIP	141,908,209	204,290,502
DWS Large Cap Value VIP	281,859,375	396,513,960
DWS Mid Cap Growth VIP	38,434,583	51,307,602
DWS Small Cap Growth VIP	142,983,423	220,401,619
DWS Strategic Income VIP excluding US Treasury Securities	86,505,803	91,227,114
US Treasury Securities	51,196,178	52,730,717
DWS Technology VIP	146,486,157	187,649,687
DWS Turner Mid Cap Growth VIP	177,348,567	216,098,292

For the year ended December 31, 2007, transactions for written options on swaps were as follows for DWS Balanced VIP:

	Number of Contracts	Premium
Outstanding, beginning of period	—	$ —
Options written	1,160,000	1,740
Options closed	(870,000)	(1,378)
Options expired	(290,000)	(362)
Outstanding, end of period	**—**	**$ —**

For the year ended December 31, 2007, transactions for written options on swaps were as follows for DWS Government & Agency Securities VIP:

	Number of Contracts	Premium
Outstanding, beginning of period	—	$ —
Options written	1,480,000	2,220
Options closed	(1,110,000)	(1,758)
Options expired	(370,000)	(462)
Outstanding, end of period	**—**	**$ —**

For the year ended December 31, 2007, transactions for written options on swaps were as follows for DWS Strategic Income VIP:

	Number of Contracts	Premium
Outstanding, beginning of period	—	$ —
Options written	260,000	390
Options closed	(195,000)	(309)
Options expired	(65,000)	(81)
Outstanding, end of period	**—**	**$ —**

For the year ended December 31, 2007, transactions for written options on securities were as follows for DWS Technology VIP:

	Number of Contracts	Premium
Outstanding, beginning of period	536	$ 100,465
Options written	1,405	204,956
Options closed	(1,767)	(259,833)
Options expired	(174)	(45,588)
Outstanding, end of period	**—**	**$ —**

C. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of each Portfolio 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 each Portfolio or delegates such responsibility to each Portfolio's subadvisor. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Investment Management Agreement. Accordingly, for the year ended December 31, 2007, the fees pursuant to the Investment Management Agreement were equivalent to the annual rates shown below of each Portfolio's average daily net assets, computed and accrued daily and payable monthly:

Portfolio	Annual Management Fee Rate
DWS Balanced VIP	
$0–$250 million	.470%
next $750 million	.445%
over $1 billion	.410%
DWS Blue Chip VIP	
$0–$250 million	.650%
next $750 million	.620%
next $1.5 billion	.600%
next $2.5 billion	.580%
next $2.5 billion	.550%
next $2.5 billion	.530%
next $2.5 billion	.510%
over $12.5 billion	.490%

Portfolio	Annual Management Fee Rate
DWS Core Fixed Income VIP	
$0–$250 million	.600%
next $750 million	.570%
next $1.5 billion	.550%
next $2.5 billion	.530%
next $2.5 billion	.500%
next $2.5 billion	.480%
next $2.5 billion	.460%
over $12.5 billion	.440%
DWS Davis Venture Value VIP	
$0–$250 million	.950%
next $250 million	.925%
next $500 million	.900%
next $1.5 billion	.875%
over $2.5 billion	.850%
DWS Dreman High Return Equity VIP	
$0–$250 million	.750%
next $750 million	.720%
next $1.5 billion	.700%
next $2.5 billion	.680%
next $2.5 billion	.650%
next $2.5 billion	.640%
next $2.5 billion	.630%
over $12.5 billion	.620%
DWS Dreman Small Mid Cap Value VIP	
$0–$250 million	.750%
next $750 million	.720%
next $1.5 billion	.700%
next $2.5 billion	.680%
next $2.5 billion	.650%
next $2.5 billion	.640%
next $2.5 billion	.630%
over $12.5 billion	.620%
DWS Global Thematic VIP	
$0–$250 million	1.000%
next $500 million	.950%
next $750 million	.900%
next $1.5 billion	.850%
over $3 billion	.800%
DWS Government & Agency Securities VIP	
$0–$250 million	.550%
next $750 million	.530%
next $1.5 billion	.510%
next $2.5 billion	.500%
next $2.5 billion	.480%
next $2.5 billion	.460%
next $2.5 billion	.440%
over $12.5 billion	.420%

Portfolio	Annual Management Fee Rate
DWS High Income VIP	
$0–$250 million	.600%
next $750 million	.570%
next $1.5 billion	.550%
next $2.5 billion	.530%
next $2.5 billion	.500%
next $2.5 billion	.480%
next $2.5 billion	.460%
over $12.5 billion	.440%
DWS International Select Equity VIP	
$0–$1.5 billion	.750%
next $1.75 billion	.735%
next $1.75 billion	.720%
over $5 billion	.705%
DWS Janus Growth & Income VIP	
$0–$250 million	.750%
next $750 million	.725%
next $1.5 billion	.700%
over $2.5 billion	.675%
DWS Mid Cap Growth VIP	
$0–$250 million	.750%
next $750 million	.720%
next $1.5 billion	.700%
next $2.5 billion	.680%
next $2.5 billion	.650%
next $2.5 billion	.640%
next $2.5 billion	.630%
over $12.5 billion	.620%
DWS Money Market VIP	
$0–$500 million	.385%
next $500 million	.370%
next $1.0 billion	.355%
over $2.0 billion	.340%
DWS Small Cap Growth VIP	
$0–$250 million	.650%
next $750 million	.625%
over $1 billion	.600%
DWS Strategic Income VIP	
$0–$250 million	.650%
next $750 million	.620%
next $1.5 billion	.600%
next $2.5 billion	.580%
next $2.5 billion	.550%
next $2.5 billion	.530%
next $2.5 billion	.510%
over $12.5 billion	.490%

Portfolio	Annual Management Fee Rate
DWS Technology VIP	
$0–$250 million	.750%
next $750 million	.720%
next $1.5 billion	.700%
next $2.5 billion	.680%
next $2.5 billion	.650%
next $2.5 billion	.640%
next $2.5 billion	.630%
over $12.5 billion	.620%
DWS Turner Mid Cap Growth VIP	
$0–$250 million	.800%
next $250 million	.785%
next $500 million	.770%
over $1 billion	.755%

In addition, for the period from January 1, 2007 through April 10, 2007, the fee pursuant to the Investment Management Agreement was equivalent to the annual rates shown below of DWS Large Cap Value VIP's average daily net assets, accrued daily and payable monthly:

	Annual Management Fee Rate
$0–$250 million	.750%
next $750 million	.725%
next $1.5 billion	.700%
next $2.5 billion	.675%
next $2.5 billion	.650%
next $2.5 billion	.625%
next $2.5 billion	.600%
over $12.5 billion	.575%

Effective April 11, 2007, the fee pursuant to the Investment Management Agreement was equivalent to the annual rates shown below of DWS Large Cap Value VIP's average daily net assets, accrued daily and payable monthly:

	Annual Management Fee Rate
$0–$250 million	.650%
next $750 million	.625%
next $1.5 billion	.600%
next $2.5 billion	.575%
next $2.5 billion	.550%
next $2.5 billion	.525%
next $2.5 billion	.500%
over $12.5 billion	.475%

In addition, under a separate administrative services agreement between DWS Large Cap Value VIP and the Advisor, DWS Large Cap Value VIP pays the Advisor for providing most of the Portfolio's administrative services. (See Administration Fee below.)

Aberdeen Asset Management Inc. serves as subadvisor to DWS Core Fixed Income VIP and is paid by the Advisor for its services.

Dreman Value Management, L.L.C. serves as subadvisor to DWS Dreman High Return Equity VIP and DWS Dreman Small Mid Cap Value VIP and is paid by the Advisor for its services.

Janus Capital Management, LLC serves as subadvisor to DWS Janus Growth & Income VIP and is paid by the Advisor for its services.

Turner Investment Partners, Inc. serves as subadvisor to DWS Turner Mid Cap Growth VIP and is paid by the Advisor for its services.

Davis Selected Advisers, L.P., serves as subadvisor to DWS Davis Venture Value VIP and is paid by the Advisor for its services.

Effective February 5, 2007, Deutsche Asset Management International GmbH ("DeAMi") serves as subadvisor to DWS Large Cap Value VIP and is paid by the Advisor for its services.

For the period from January 1, 2007 through January 31, 2007, the Advisor, the underwriter and accounting agent contractually had agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Davis Venture Value VIP	
Class A	.85%
Class B	1.25%
DWS Global Thematic VIP	
Class A	1.05%
Class B	1.49%
DWS Mid Cap Growth VIP	
Class A	.86%
Class B	1.26%

For the period from January 1, 2007 through May 6, 2007, the Advisor, the underwriter and the accounting agent contractually had agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Dreman High Return Equity VIP	
Class B	1.15%
DWS Money Market VIP	
Class B	.81%

For the period from May 7, 2007 through April 30, 2010, the Advisor, the underwriter and the accounting agent contractually have agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) as follows:

Portfolio	Annual Rate
DWS Dreman High Return Equity VIP	
Class B	1.11%
DWS Money Market VIP	
Class B	.79%

For the period from January 1, 2007 through April 30, 2008, the Advisor, the underwriter and accounting agent contractually have agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Balanced VIP	
Class A	.51%
Class B	.89%
DWS Small Cap Growth VIP	
Class A	.72%
Class B	1.09%

For the period from January 1, 2007 through April 30, 2010, the Advisor, the underwriter and accounting agent contractually have agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) as follows:

Portfolio	Annual Rate
DWS Dreman High Return Equity VIP	
Class A	.78%
DWS Money Market VIP	
Class A	.44%

For the period from February 1, 2007 through September 30, 2007, the Advisor, the underwriter and accounting agent contractually had agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) as follows:

Portfolio	Annual Rate
DWS Davis Venture Value VIP	
Class A	.89%
Class B	1.29%
DWS Global Thematic VIP	
Class A	1.12%
Class B	1.52%
DWS Mid Cap Growth VIP	
Class A	.90%
Class B	1.30%

For the period from February 1, 2007 through April 30, 2008, the Advisor, the underwriter and accounting agent contractually had agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage, interest and organizational and offering expenses) as follows:

Portfolio	Annual Rate
DWS Government & Agency Securities VIP	
Class A	.63%

Effective October 1, 2007 through April 30, 2008, the Advisor, the underwriter and accounting agent have contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) as follows:

Portfolio	Annual Rate
DWS Davis Venture Value VIP	
Class A	.86%
Class B	1.26%

Effective October 1, 2007 through September 30, 2008, the Advisor, the underwriter and accounting agent have contractually agreed to waive all or a portion of their respective fees and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of each class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) as follows:

Portfolio	Annual Rate
DWS Core Fixed Income VIP	
Class A	.70%
DWS Global Thematic VIP	
Class A	1.05%
Class B	1.45%
DWS Government & Agency Securities VIP	
Class B	1.04%
DWS Mid Cap Growth VIP	
Class A	.94%
Class B	1.34%
DWS Strategic Income VIP	
Class A	.83%
Class B	1.23%

Portfolio	Annual Rate
DWS Turner Mid Cap Growth VIP	
Class A	.94%
Class B	1.34%

Accordingly, for the year ended December 31, 2007, the total management fees charged, management fees waived and effective management fees are as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Annual Effective Rate
DWS Balanced VIP	2,666,534	30,062	.45%
DWS Blue Chip VIP	2,018,922	—	.64%
DWS Core Fixed Income VIP	2,144,122	—	.59%
DWS Davis Venture Value VIP	3,682,130	573,807	.79%
DWS Dreman High Return Equity VIP	7,381,802	—	.73%
DWS Dreman Small Mid Cap Value VIP	4,418,373	—	.74%
DWS Global Thematic VIP	1,732,290	578,480	.67%
DWS Government & Agency Securities VIP	1,209,630	41,529	.53%
DWS High Income VIP	1,912,439	—	.59%
DWS International Select Equity VIP	2,007,490	—	.75%
DWS Janus Growth & Income VIP	1,474,026	—	.75%
DWS Large Cap Value VIP	1,950,386	—	.68%
DWS Mid Cap Growth VIP	435,886	83,897	.61%
DWS Money Market VIP	1,392,290	23,928	.38%
DWS Small Cap Growth VIP	1,413,741	54,596	.62%
DWS Strategic Income VIP	697,461	—	.65%
DWS Technology VIP	1,237,197	—	.75%
DWS Turner Mid Cap Growth VIP	1,067,206	—	.80%

In addition, for the year ended December 31, 2007, the Advisor waived record keeping expenses of Class B shares of each Portfolio as follows:

Portfolio	Waived ($)
DWS Dreman High Return Equity VIP	21,420
DWS Global Thematic VIP	225
DWS Mid Cap Growth VIP	240
DWS Money Market VIP	4,857
DWS Small Cap Growth VIP	1,632

Service Provider Fees. DWS Scudder Fund Accounting Corporation ("DWS-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, except DWS Large Cap Value VIP effective April 11, 2007 (see Administration Fee below). DWS-SFAC receives no fee for its services to each Portfolio, other than the Portfolios noted below. In turn, DWS-SFAC has delegated certain fund accounting functions to a third-party service provider. For the year ended December 31, 2007, DWS-SFAC received a fee for its services as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2007 ($)
DWS Davis Venture Value VIP	95,992	7,253
DWS Dreman High Return Equity VIP	141,319	12,245
DWS Global Thematic VIP	242,233	17,944
DWS Janus Growth & Income VIP	81,055	4,563
DWS Mid Cap Growth VIP	60,283	4,696
DWS Technology VIP	59,280	5,390
DWS Turner Mid Cap Growth VIP	81,746	8,809

DWS Scudder Investments Service Company ("DWS-SISC"), an affiliate of the Advisor, is the transfer agent, dividend-paying agent and shareholder service agent for each Portfolio. Pursuant to a sub-transfer agency agreement between DWS-SISC and DST Systems, Inc. ("DST"), DWS-SISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DWS-SISC compensates DST out of the shareholder servicing fee it receives from each Portfolio. For the year ended December 31, 2007, the amounts charged to each Portfolio by DWS-SISC were as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Unpaid at December 31, 2007 ($)
DWS Balanced VIP Class A	453	453	—
DWS Balanced VIP Class B	160	—	38
DWS Blue Chip VIP Class A	348	—	57
DWS Blue Chip VIP Class B	102	—	30
DWS Core Fixed Income VIP Class A	206	—	37
DWS Core Fixed Income VIP Class B	162	—	28
DWS Davis Venture Value VIP Class A	184	184	—
DWS Davis Venture Value VIP Class B	102	—	30
DWS Dreman High Return Equity VIP Class A	682	—	128
DWS Dreman High Return Equity VIP Class B	313	313	—
DWS Dreman Small Mid Cap Value VIP Class A	712	—	169
DWS Dreman Small Mid Cap Value VIP Class B	301	—	75
DWS Global Thematic VIP Class A	313	313	—
DWS Global Thematic VIP Class B	153	153	—
DWS Government & Agency Securities VIP Class A	918	918	—
DWS Government & Agency Securities VIP Class B	96	—	16
DWS High Income VIP Class A	375	—	63
DWS High Income VIP Class B	173	—	51
DWS International Select Equity VIP Class A	247	—	74
DWS International Select Equity VIP Class B	104	—	32
DWS Janus Growth & Income VIP Class A	128	—	24
DWS Janus Growth & Income VIP Class B	86	—	14
DWS Large Cap Value VIP Class A	332	—	60
DWS Large Cap Value VIP Class B	146	—	33
DWS Mid Cap Growth VIP Class A	237	237	—
DWS Mid Cap Growth VIP Class B	102	102	—
DWS Money Market VIP Class A	690	690	—
DWS Money Market VIP Class B	87	87	—
DWS Small Cap Growth VIP Class A	365	365	—
DWS Small Cap Growth VIP Class B	118	118	—
DWS Strategic Income VIP Class A	255	—	186
DWS Strategic Income VIP Class B	89	—	75
DWS Technology VIP Class A	258	—	50
DWS Technology VIP Class B	232	—	57
DWS Turner Mid Cap Growth VIP Class A	104	—	19
DWS Turner Mid Cap Growth VIP Class B	86	—	72

Administration Fee. Effective April 11, 2007, DWS Large Cap Value VIP entered into an Administrative Services Agreement with DIMA, pursuant to which the Advisor provides most administrative services to the Portfolio. For all services provided under the Administrative Services Agreement, the Portfolio pays DIMA an annual fee ("Administration Fee") of 0.10% of the Portfolio's average daily net assets, computed and accrued daily and payable monthly. For the period from April 11, 2007 through December 31, 2007, DIMA received an Administration Fee of $197,410, of which $21,671 is unpaid.

Distribution Service Agreement. Under the Portfolios' Class B 12b-1 plans, DWS Scudder Distributors, Inc. ("DWS-SDI") receives a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2007, the Distribution Service Fee was as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2007 ($)
DWS Balanced VIP	38,042	1,423
DWS Blue Chip VIP	58,995	2,225
DWS Core Fixed Income VIP	189,948	14,316
DWS Davis Venture Value VIP	106,162	4,357
DWS Dreman High Return Equity VIP	224,891	7,211
DWS Dreman Small Mid Cap Value VIP	129,482	6,434
DWS Global Thematic VIP	38,519	1,954
DWS Government & Agency Securities VIP	38,854	1,180
DWS High Income VIP	63,359	1,923
DWS International Select Equity VIP	87,237	2,827
DWS Janus Growth & Income VIP	34,879	875
DWS Large Cap Value VIP	46,834	1,509
DWS Mid Cap Growth VIP	10,285	441
DWS Money Market VIP	88,694	4,890
DWS Small Cap Growth VIP	43,093	1,302
DWS Strategic Income VIP	36,164	1,205
DWS Technology VIP	17,126	725
DWS Turner Mid Cap Growth VIP	30,511	993

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to each Portfolio. For the year ended December 31, 2007, the amount charged to each Portfolio by DIMA included in the Statement of Operations under "reports to shareholders" was as follows:

Portfolio	Amount ($)	Unpaid at December 31, 2007 ($)
DWS Balanced VIP	6,646	1,175
DWS Blue Chip VIP	7,397	1,593
DWS Core Fixed Income VIP	4,960	672
DWS Davis Venture Value VIP	6,052	1,588
DWS Dreman High Return Equity VIP	5,884	1,450
DWS Dreman Small Mid Cap Value VIP	4,722	700
DWS Global Thematic VIP	6,619	2,001
DWS Government & Agency Securities VIP	5,473	1,147
DWS High Income VIP	6,825	2,382
DWS International Select Equity VIP	8,950	3,311
DWS Janus Growth & Income VIP	11,073	6,296
DWS Large Cap Value VIP	5,423	1,081
DWS Mid Cap Growth VIP	6,038	1,943
DWS Money Market VIP	4,700	175
DWS Small Cap Growth VIP	11,801	6,277
DWS Strategic Income VIP	11,400	7,063
DWS Technology VIP	6,352	1,909
DWS Turner Mid Cap Growth VIP	5,335	1,085

Trustees' Fees and Expenses. The Portfolios paid each Trustee not affiliated with the Advisor retainer fees plus specified amounts for various committee services and for the Board Chairperson.

Cash Management QP Trust. Pursuant to an Exemptive Order issued by the SEC, each Portfolio may invest in the 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 impair the ability of issuers to repay principal and pay 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 or delayed settlements and may have prices more volatile than those of comparable securities of issuers in the United States of America.

F. Fee Reductions

For the year ended December 31, 2007, the Advisor agreed to reimburse the Portfolios 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:

Portfolio	Amount ($)
DWS Balanced VIP	8,172
DWS Blue Chip VIP	5,501
DWS Core Fixed Income VIP	5,372
DWS Davis Venture Value VIP	6,100
DWS Dreman High Return Equity VIP	13,717
DWS Dreman Small Mid Cap Value VIP	8,419
DWS Global Thematic VIP	3,314
DWS Government & Agency Securities VIP	4,017
DWS High Income VIP	5,271
DWS International Select Equity VIP	4,657
DWS Janus Growth & Income VIP	3,731
DWS Large Cap Value VIP	1,544
DWS Mid Cap Growth VIP	1,902
DWS Money Market VIP	5,017
DWS Small Cap Growth VIP	4,036
DWS Strategic Income VIP	2,515
DWS Technology VIP	3,431
DWS Turner Mid Cap Growth VIP	3,111

In addition, the Portfolios have entered into an arrangement with their custodian whereby credits realized as a result of uninvested cash balances were used to reduce a portion of the Portfolios' expenses. During the year ended December 31, 2007, the Portfolios' custodian fee was reduced under the arrangement as follows:

Portfolio	Amount ($)
DWS Balanced VIP	2,906
DWS Blue Chip VIP	236
DWS Core Fixed Income VIP	604
DWS Davis Venture Value VIP	276
DWS Dreman High Return Equity VIP	354
DWS Dreman Small Mid Cap Value VIP	658
DWS Government & Agency Securities VIP	2,159

Portfolio	Amount ($)
DWS High Income VIP	1,549
DWS Janus Growth & Income VIP	1,481
DWS Large Cap Value VIP	16,517
DWS Mid Cap Growth VIP	165
DWS Money Market VIP	754
DWS Small Cap Growth VIP	91
DWS Strategic Income VIP	8,030
DWS Technology VIP	131
DWS Turner Mid Cap Growth VIP	273

G. Ownership of the Portfolios

At December 31, 2007, the beneficial ownership in each Portfolio was as follows:

DWS Balanced VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 40%, 24% and 18%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 98%.

DWS Blue Chip VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 61% and 33%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 98%.

DWS Core Fixed Income VIP: 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%, 32% and 12%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 79% and 21%.

DWS Davis Venture Value VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 77% and 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 98%.

DWS Dreman High Return Equity VIP: 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 25%. 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%.

DWS Dreman Small Mid Cap Value VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 58%, 23% and 11%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 53% and 37%.

DWS Global Thematic VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 71% and 27%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

DWS Government & Agency Securities VIP: 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%, 37% and 14%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 95%.

DWS High Income VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 34%, 33% 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 97%.

DWS International Select Equity VIP: Three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 53%, 24% and 22%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 99%.

DWS Janus Growth & Income VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 73% 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 100%.

DWS Large Cap Value VIP: 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 17%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 99%.

DWS Mid Cap Growth VIP: 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 29%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 98%.

DWS Money Market VIP: 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%, 22% and 13%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

DWS Small Cap Growth VIP: 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%, 23% 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 100%.

DWS Strategic Income VIP: 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 34%. One Participating Insurance Company was the owner of record of 10% or more of the outstanding Class B shares of the Portfolio, owning 99%.

DWS Technology VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 63% and 31%. One Participating Insurance Company was the owner of record of 10% or more of the outstanding Class B shares of the Portfolio, owning 93%.

DWS Turner Mid Cap Growth VIP: Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 83% and 17%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 99%.

H. Line of Credit

The Trust and other affiliated funds (the "Participants") share in a $750 million revolving credit facility administered by JPMorgan Chase Bank N.A. 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 0.35 percent. The facility borrowing limit for each Portfolio as a percent of net assets is as follows:

Portfolio	Facility Borrowing Limit
DWS Balanced VIP	33%
DWS Blue Chip VIP	33%
DWS Core Fixed Income VIP	33%
DWS Davis Venture Value VIP	33%
DWS Dreman High Return Equity VIP	33%
DWS Dreman Small Mid Cap Value VIP	33%
DWS Global Thematic VIP	33%
DWS Government & Agency Securities VIP	33%
DWS High Income VIP	33%
DWS International Select Equity VIP	33%
DWS Janus Growth & Income VIP	33%
DWS Large Cap Value VIP	33%
DWS Mid Cap Growth VIP	33%
DWS Money Market VIP	33%
DWS Small Cap Growth VIP	33%
DWS Strategic Income VIP	33%

Portfolio	Facility Borrowing Limit
DWS Technology VIP	5%
DWS Turner Mid Cap Growth VIP	33%

I. Payments Made by Affiliates

During the year ended December 31, 2007, the Advisor fully reimbursed DWS Balanced VIP and DWS Strategic Income VIP $11,348 and $3,963, respectively, for losses incurred on trades executed incorrectly.

The amounts of the losses were less than 0.01% of each Portfolio's average net assets, thus having no impact on each Portfolio's total return.

In addition, during the year ended December 31, 2007, the Advisor fully reimbursed DWS Large Cap Value VIP $92,456 for losses on certain operation errors during the period.

J. Acquisition of Assets

On September 15, 2006, DWS Dreman High Return Equity VIP acquired all of the net assets of DWS Dreman Financial Services VIP and DWS MFS Strategic Value VIP pursuant to a plan of reorganization approved by shareholders on August 24, 2006. The acquisition was accomplished by a tax-free exchange of 9,878,311 Class A shares and 1,552,231 Class B shares of DWS Dreman Financial Services VIP and 2,714,688 Class A shares and 2,857,615 Class B shares of DWS MFS Strategic Value VIP, respectively, for 7,492,130 Class A shares and 1,180,445 Class B shares and 1,965,950 Class A shares and 2,075,811 Class B shares of DWS Dreman High Return Equity VIP, respectively, outstanding on September 15, 2006. DWS Dreman Financial Services VIP and DWS MFS Strategic Value VIP's net assets at that date of $125,823,288 and $58,623,028, respectively, including $13,177,547 and $2,482,671, respectively, of net unrealized appreciation, were combined with those of DWS Dreman High Return Equity VIP. The aggregate net assets of DWS Dreman High Return Equity VIP immediately before the acquisition were $950,803,547. The combined net assets of DWS Dreman High Return Equity VIP immediately following the acquisition were $1,135,249,863.

On November 3, 2006, DWS Money Market VIP acquired all of the net assets of Money Market VIP pursuant to a plan of reorganization approved by shareholders on October 19, 2006. The acquisition was accomplished by a tax-free exchange of 56,959,609 Class A shares of the Money Market VIP for 56,959,609 Class A shares of DWS Money Market VIP outstanding on November 3, 2006. Money Market VIP's net assets at that date of $56,965,779 were combined with those of DWS Money Market VIP. The aggregate net assets of DWS Money Market VIP immediately before the acquisition were $317,440,879. The combined net assets of DWS Money Market VIP immediately following the acquisition were $374,406,658.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of DWS Variable Series II:

We have audited the accompanying statements of assets and liabilities of the DWS Blue Chip VIP, DWS Core Fixed Income VIP, DWS Davis Venture Value VIP, DWS Dreman High Return Equity VIP, DWS Dreman Small Mid Cap Value VIP, DWS Global Thematic VIP, DWS Government & Agency Securities VIP, DWS International Select Equity VIP, DWS Janus Growth & Income VIP, DWS Large Cap Value VIP, DWS Mid Cap Growth VIP, DWS Money Market VIP, DWS Small Cap Growth VIP, DWS Technology VIP and DWS Turner Mid Cap Growth VIP, fifteen of the portfolios constituting the DWS Variable Series II (the "Trust"), including the investment portfolios, as of December 31, 2007, and the related statements of operations for the year then ended, the statements of changes in 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. 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. We were not engaged to perform an audit of the Trust's internal control over financial reporting. Our audits included 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 Trust'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, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, 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 DWS Variable Series II at December 31, 2007, the results of their operations for the year then ended, the changes in their 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 U.S. generally accepted accounting principles.

Boston, Massachusetts
February 14, 2008

Ernst & Young LLP

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of DWS Variable Series II:

We have audited the accompanying statements of assets and liabilities of the DWS Balanced VIP, DWS High Income VIP and DWS Strategic Income VIP, three of the portfolios constituting the DWS Variable Series II (the "Trust"), including the investment portfolios, as of December 31, 2007, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, 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. We were not engaged to perform an audit of the Trust's internal control over financial reporting. Our audits included 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 Trust'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, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2007, 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 DWS Variable Series II at December 31, 2007, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts
February 21, 2008

Ernst & Young LLP

Tax Information

Unaudited

The following Portfolios paid distributions from net long-term capital gains during the year ended December 31, 2007 as follows:

Portfolio	Distribution Per Share ($)	% Representing 15% Rate Gains
DWS Blue Chip VIP	.68	100
DWS Davis Venture Value VIP	.18	100
DWS Dreman High Return Equity VIP	.13	100
DWS Dreman Small Mid Cap Value VIP	2.47	100
DWS Global Thematic VIP	1.25	100
DWS International Select Equity VIP	1.36	100
DWS Large Cap Value VIP	.52	100
DWS Turner Mid Cap Growth VIP	.97	100

The following Portfolios designated as capital gain dividends for their year ended December 31, 2007:

Portfolio	Capital Gain ($)	% Representing 15% Rate Gains
DWS Blue Chip VIP	20,232,000	100
DWS Davis Venture Value VIP	34,693,000	100
DWS Dreman High Return Equity VIP	106,251,000	100
DWS Dreman Small Mid Cap Value VIP	148,104,000	100
DWS Global Thematic VIP	22,659,000	100
DWS International Select Equity VIP	34,342,000	100
DWS Janus Growth & Income VIP	12,172,000	100
DWS Large Cap Value VIP	44,400,000	100
DWS Strategic Income VIP	999,000	100
DWS Turner Mid Cap Growth VIP	20,038,000	100

For corporate shareholders, the following percentage of income dividends paid during the following Portfolios' fiscal year ended December 31, 2007 qualified for the dividends received deduction:

Portfolio	Dividends Received %
DWS Balanced VIP	28
DWS Blue Chip VIP	16
DWS Davis Venture Value VIP	100
DWS Dreman High Return Equity VIP	100
DWS Dreman Small Mid Cap Value VIP	21
DWS Global Thematic VIP	5
DWS Janus Growth & Income VIP	100
DWS Large Cap Value VIP	70

DWS Global Thematic VIP paid foreign taxes of $266,820 and earned $2,259,870 of foreign source income during the year ended December 31, 2007. Pursuant to section 853 of the Internal Revenue Code, the Portfolio designates $0.03 per share as foreign taxes paid and $0.10 per share as income earned from foreign sources for the year ended December 31, 2007.

DWS International Select Equity VIP paid foreign taxes of $474,771 and earned $3,624,407 of foreign source income during the year ended December 31, 2007. Pursuant to Section 853 of the Internal Revenue Code, the Portfolio designates $0.03 per share as foreign taxes paid and $0.24 per share as income earned from foreign sources for the year ended December 31, 2007.

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 — www.dws-scudder.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Investment Management Agreement Approval

The Board of Trustees, including the Independent Trustees, approved the renewal of each Portfolio's investment management agreement (each an "Agreement" and collectively, the "Agreements") with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor") in September 2007. As part of its review process, the Board requested and evaluated all information it deemed reasonably necessary to evaluate the Agreements. Over the course of several months, the Contract Review Committee, in coordination with the Equity Oversight Committee and the Fixed-Income Oversight Committee, as applicable, and the Operations Committee of the Board, reviewed comprehensive materials received from the Advisor, independent third parties and independent counsel. These materials included an analysis of each Portfolio's performance, fees and expenses, and profitability compiled by an independent fee consultant. The Board also received extensive information throughout the year regarding performance and operating results of each Portfolio. Based on their evaluation of the information provided, the Committees presented their findings and recommendations to the Independent Trustees as a group. The Independent Trustees then reviewed the Committees' findings and recommendations and presented their recommendations to the full Board. Throughout their consideration of the Agreements, the Independent Trustees were advised by their independent legal counsel and by an independent fee consultant.

In connection with the contract review process, the various Committees and the Board considered the factors discussed below, among others. The Board also considered that the Advisor and its predecessors have managed each Portfolio since its inception, and the Board believes that a long-term relationship with a capable, conscientious adviser is in the best interests of each of the Portfolios. The Board considered, generally, that shareholders invested in a Portfolio, or approved the investment management agreement for a Portfolio, knowing that the Advisor managed the Portfolio and knowing the investment management fee schedule. The Board considered Deutsche Bank's commitment that it will devote to the Advisor and its affiliates all attention and resources that are necessary to provide the Portfolios with top-quality investment management and shareholder, administrative and product distribution services.

Nature, Quality and Extent of Services. The Board considered the nature, extent and quality of services provided under the Agreements, including portfolio management services and administrative services. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of the Advisor to attract and retain high-quality personnel, and the organizational depth and stability of the Advisor. For certain Portfolios, the Board considered the delegation of day-to-day portfolio management responsibility to a sub-advisor. The Board reviewed each Portfolio's performance over short-term and, as applicable, long-term periods, and compared those returns to various agreed-upon performance measures, including market indices and peer universes compiled by Lipper Inc. ("Lipper"). The Board considered whether investment results were consistent with a Portfolio's investment objective and policies. The Board also noted that it has put a process into place of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer group compiled by Lipper), and receives more frequent reporting and information from the Advisor regarding such funds, along with the Advisor's remedial plans to address underperformance. The Board believes this process is an effective manner of addressing poorly performing funds at this time.

On the basis of this evaluation and the ongoing review of investment results by the Equity Oversight Committee and the Fixed-Income Oversight Committee, as applicable, the Board concluded that the nature, quality and extent of services provided by the Advisor historically have been and continue to be satisfactory and unless otherwise noted below, each Portfolio's performance over time was satisfactory.

Fees and Expenses. The Board considered each Portfolio's management fee rate, operating expenses and total expense ratios, and compared management fees to a peer group and total expenses to a broader peer universe based on information and data supplied by Lipper and supplemented by the independent fee consultant. The information provided to the Board is discussed in greater detail below for each Portfolio. The Board also considered each Portfolio's management fee rate as compared to fees charged by the Advisor and certain of its affiliates for comparable funds and, as applicable, for similarly managed institutional accounts. With respect to institutional accounts, the Board noted that (i) both the mix of services provided and the level of responsibility required under an Agreement were significantly greater as compared to the Advisor's obligations for similarly managed institutional accounts; and (ii) the management fees of institutional accounts are less relevant to the

Board's consideration because they reflect significantly different competitive forces from those in the mutual fund marketplace. With respect to other comparable funds, the Board considered differences in fund and fee structures among the funds. When applicable, the Board took into account the Advisor's commitment to cap total expenses for certain classes through specified periods.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by the Advisor.

Profitability. The Board reviewed detailed information regarding revenues received by the Advisor under each Agreement. The Board considered the estimated costs and pre-tax profits realized by the Advisor from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing each Portfolio in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Scudder organization with respect to all fund services in totality and by fund. The Board reviewed DIMA's methodology in allocating its costs to the management of each Portfolio. Although the Board noted the inherently subjective nature of any allocation methodology, the Board received an attestation report from an accounting firm affirming that the allocation methods were consistently applied and were based upon practices commonly used in the investment management industry. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of each Portfolio were not unreasonable. For DWS Mid Cap Growth VIP, DWS High Income VIP, DWS Strategic Income VIP and DWS Technology VIP, the Board noted that, based on the information provided, the Advisor operated each Portfolio at a loss. For DWS Growth Allocation VIP, DWS Moderate Allocation VIP and DWS Conservative Allocation VIP, the Board did not receive profitability information with respect to the Portfolio, but did receive such information with respect to the funds in which the Portfolio invests.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of each Portfolio and whether a Portfolio benefits from any economies of scale. The Board considered whether the management fee schedule under each Agreement is reasonable in relation to the asset size of the Portfolio. The Board noted that the management fee schedule for each Portfolio included breakpoints designed to share economies of scale with Portfolio shareholders. The Board concluded that each management fee schedule reflects an appropriate level of sharing of any economies of scale.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by the Advisor for administrative services provided to each Portfolio and any fees received by an affiliate of the Advisor for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DeAM products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

In connection with the factors described above, the Board considered factors specific to a particular Portfolio, as discussed below.

DWS Mid Cap Growth VIP

Nature, Quality and Extent of Services. The Board noted the relative long-term underperformance of the Portfolio, and took into account the factors contributing to such performance and steps being taken by the Advisor to improve performance. The Board noted that, effective October 28, 2005, the Portfolio adopted a new investment objective and strategy and changed its name from Aggressive Growth Portfolio to Mid Cap Growth Portfolio and that the performance of the Portfolio since this change has been positive.

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap that expired on October 1, 2007, showed that the Portfolio's management fee rate was at the 19th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 54th percentile for Class A shares and the 55th percentile for Class B shares.

To address the potential effect of the expiring expense caps on total expenses for Class A and Class B shares, the Board recommended caps on total expenses through September 30, 2008 as follows: 0.94% for Class A shares and 1.34% for Class B shares. The Board noted that, although total expense ratios for each share class were above the median of the peer universe, such total expense ratios (after the recommended expense caps) were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Blue Chip VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 13th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 23rd percentile for Class A shares and the 23rd percentile for Class B shares.

DWS Davis Venture Value VIP

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap that expired on October 1, 2007, showed that the Portfolio's management fee rate was at the 94th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 76th percentile for Class A shares and the 76th percentile for Class B shares.

To address the potential effect of the expiring expense caps on total expenses for each share class, the Board recommended continuing the existing caps on total expenses through September 30, 2008 as follows: 0.89% for Class A shares and 1.29% for Class B shares. The Board noted that, although the Portfolio's management fee rate was above the median of the peer group and total expense ratios for each share class were above the median of the peer universe, such expenses (after the recommended expense caps) were within an acceptable range of the peer group and peer universe, respectively, and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor, including the favorable performance of the Portfolio.

DWS Dreman High Return Equity VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 45th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 41st percentile for Class A shares and the 41st percentile for Class B shares. The Board took into account the Advisor's commitment to cap total expenses for each share class until May 1, 2010.

DWS Dreman Small Mid Cap Value VIP

Nature, Quality and Extent of Services. The Board considered that it approved a change, effective in November 2006, in the Portfolio's investment policies to invest in small and mid-size U.S. companies.

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 18th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 8th percentile for Class A shares and the 8th percentile for Class B shares.

DWS Global Thematic VIP

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap for Class A and Class B shares that expired on October 1, 2007, showed that the Portfolio's management fee rate was at the 62nd percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 82nd percentile for Class A shares and the 82nd percentile for Class B shares.

In light of the expense rankings, the Board recommended caps on total expenses through September 30, 2008 as follows: 1.05% for Class A shares and 1.45% for Class B shares. The Board noted that although, the Portfolio's management fee rate was above the median of the peer group and total expense ratios for each share class were above the median of the peer universe, such management fee rate and total expense ratios (after the recommended expense caps) were within an acceptable range of the peer group and peer universe, respectively, and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS International Select Equity VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 7th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 26th percentile for Class A shares and the 26th percentile for Class B shares.

DWS Janus Growth and Income VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 65th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 67th percentile for Class A shares and the 67th percentile for Class B shares.

The Board noted that, although the Portfolio's management fee rate was above the median of the peer group and total expense ratios for each share class were above the median of the peer universe, such management fee rate and total expense ratios were within an acceptable range of the peer group and peer universe, respectively, and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Large Cap Value VIP

Nature, Quality and Extent of Services. The Board noted that, under the Agreement, which shareholders recently approved in April 2007, DIMA provides portfolio management services to the Portfolio and that, pursuant to a separate Administrative Services Agreement, DIMA provides administrative services to the Portfolio. The Board also noted that shareholders approved a new sub-advisory agreement in April 2007 pursuant to which DIMA has delegated day-to-day portfolio management responsibility to Deutsche Asset Management International GmbH, an affiliate of the Advisor.

The Board noted the short-term relative underperformance of the Portfolio, and took into account the factors contributing to such performance, the Portfolio's favorable long-term performance, and steps taken by the Advisor to improve performance, including the change in portfolio manager.

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 47th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 56th percentile for Class A shares and the 56th percentile for Class B shares.

The Board noted that, although total expense ratios for each share class were above the median of the peer universe, such total expense ratios were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Small Cap Growth VIP

Nature, Quality and Extent of Services. The Board noted the relative underperformance of the Portfolio, and took into account the factors contributing to such performance and steps being taken by the Advisor to improve performance, including recent changes in investment personnel.

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap for Class A and Class B shares that expires May 1, 2008, showed that the Portfolio's management fee rate was at the 1st percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 9th percentile for Class A shares and the 8th percentile for Class B shares. The Board took into account the Advisor's commitment to cap total expenses until May 1, 2008.

DWS Technology VIP

Nature, Quality and Extent of Services. The Board noted the relative underperformance of the Portfolio, and took into account the factors contributing to such performance and steps taken by the Advisor to improve performance, including the introduction of a new lead portfolio manager and a shift in the Portfolio's investment focus.

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 36th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 35th percentile for Class A shares and the 35th percentile for Class B shares.

DWS Balanced VIP

Nature, Quality and Extent of Services. The Board noted the relative underperformance of the Portfolio, and took into account the factors contributing to such performance, including the Portfolio's lower exposure to international equities relative to its peers, and steps being taken by the Advisor to improve performance.

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap for Class A and Class B shares that expires on May 1, 2008, showed that the Portfolio's management fee rate was at the 36th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 12th percentile for Class A shares and the 9th percentile for Class B shares. The Board took into account the Advisor's commitment to cap total expenses for each share class until May 1, 2008.

DWS Turner Mid Cap Growth VIP

Nature, Quality and Extent of Services. The Board noted the relative underperformance of the Portfolio, and took into account the factors contributing to such performance, and the steps being taken by the Advisor to improve performance.

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 47th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 77th percentile for Class A shares and the 78th percentile for Class B shares.

In light of the expense rankings, the Board recommended a cap on total expenses through September 30, 2008 as follows: 0.94% for Class A shares and 1.34% for Class B shares. The Board noted that, although total expense ratios for each share class were above the median of the peer universe, such total expense ratios (after the recommended expense caps) were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Core Fixed Income VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 44th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 76th percentile for Class A shares and the 54th percentile for Class B shares.

In light of the expense rankings for Class A shares, the Board recommended a cap on total expenses for Class A shares at 0.70% through September 30, 2008. The Board noted that, although total expense ratios for each share class were above the median of the peer universe, such total expense ratios (after the recommended expense cap) were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Government & Agency Securities VIP

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap for Class A shares that expired on October 1, 2007, showed that the Portfolio's management fee rate was at the 40th percentile for the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 69th percentile for Class A shares and the 69th percentile for Class B shares.

To address the potential effect of the expiring expense cap on total expenses for Class A shares, the Board recommended a cap on total expenses through September 30, 2008 as follows: 0.64% for Class A shares and

1.04% for Class B shares. The Board noted that, although total expense ratios for each share class were above the median of the peer universe, such total expense ratios (after the recommended expense caps) were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS High Income VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 33rd percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 39th percentile for Class A shares and the 39th percentile for Class B shares.

DWS Strategic Income VIP

Fees and Expenses. The information provided to the Board showed that the Portfolio's management fee rate was at the 42nd percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 70th percentile for Class A shares and the 70th percentile for Class B shares.

In light of the expense rankings, the Board recommended a cap on total expenses through September 30, 2008 as follows: 0.83% for Class A shares and 1.23% for Class B shares. The Board noted that, although total expense ratios for each share class were above the median of the peer universe, such total expense ratios (after the recommended expense caps) were within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

DWS Money Market VIP

Nature, Quality and Extent of Services. The Board reviewed the Portfolio's gross and net performance over short-term and long-term periods and compared those returns to various agreed-upon peer universe performance measures, focusing, for this purpose, primarily on gross performance. The Board concluded that the Portfolio's gross performance over time was satisfactory.

Fees and Expenses. The information provided to the Board, which included the effect of an expense cap for each class that expires on May 1, 2010, showed that the Portfolio's management fee rate was at the 17th percentile of the peer group, and that the Portfolio's total expense ratios (excluding any 12b-1 and recordkeeping fees) were at the following percentiles of the peer universe: the 26th percentile for Class A shares and the 52nd percentile for Class B shares. The Board took into account the Advisor's commitment to cap total expenses until May 1, 2010.

The Board noted that, although the total expense ratio for Class B shares was above the median of the peer universe, such total expense ratio was within an acceptable range of the peer universe and consistent with reasonable expectations in light of the nature, quality and extent of services provided by the Advisor.

■ ■ ■ ■ ■

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the terms of each Agreement continue to be fair and reasonable and that the continuation of each Agreement is in the best interests of each Portfolio. No single factor was determinative in the Board's analysis.

■ ■ ■ ■ ■

Board Considerations in Connection with the Annual Review of the Sub-Advisory Agreement for each of the following Portfolios:

DWS Davis Venture Value VIP

DWS Dreman High Return Equity VIP

DWS Dreman Small Mid Cap Value VIP

DWS Core Fixed Income VIP

DWS Janus Growth and Income VIP

DWS Large Cap Value VIP

DWS Turner Mid Cap Growth VIP

The Board of Trustees, including the Independent Trustees, approved the renewal of each Portfolio's sub-advisory agreement (each a "Sub-Advisory Agreement" and collectively, the "Sub-Advisory Agreements") between

Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor") and each Portfolio's sub-advisor (each a "Sub-Advisor") in September 2007. With respect to DWS Large Cap Value VIP, the Board noted that the Sub-Advisory Agreement was approved by shareholders in April 2007 and that the approval of the Sub-Advisory Agreement allowed DIMA to complete a change in the portfolio manager of the Portfolio. As part of its review process, the Board requested and evaluated all information it deemed reasonably necessary to evaluate each Sub-Advisory Agreement. The review process followed by the Board is described in detail above. In connection with the renewal of the Sub-Advisory Agreements, the various Committees and the Board considered the factors described below, among others.

Nature, Quality and Extent of Services. The Board considered the nature, extent and quality of services provided under each Sub-Advisory Agreement. The Board considered the reputation, qualifications and background of each Sub-Advisor, investment approach of each Sub-Advisor, the experience and skills of investment personnel responsible for the day-to-day management of each Portfolio, and the resources made available to such personnel. The Board considered short-term and longer-term performance of each Portfolio (as described above).

On the basis of this evaluation and the ongoing review of investment results by the Equity Oversight Committee and the Fixed-Income Oversight Committee, as applicable, the Board concluded that the nature, quality and extent of services provided by each Sub-Advisor historically have been and continue to be satisfactory and that, except as discussed below, each Portfolio's performance during the tenure of the Sub-Advisor was satisfactory.

With respect to DWS Dreman Small Mid Cap Value VIP, the Board considered that it approved a change, effective in November 2006, in the Portfolio's investment policies to invest in small and mid-size U.S. companies. With respect to DWS Turner Mid Cap Growth VIP, the Board noted the relative underperformance of the Portfolio, and took into account the factors contributing to such performance, and the steps being taken by the Sub-Advisor to improve performance. With respect to DWS Large Cap Value VIP, the Board noted that the performance information did not include the period during which the Sub-Advisor managed the Portfolio.

Fees; Profitability and Economies of Scale. The Board considered the sub-advisory fee rate under each Sub-Advisory Agreement and how it related to the overall management fee structure of the Portfolio.

The Board considered that for each unaffiliated Sub-Advisor the sub-advisory fee rate was negotiated at arm's length between the Advisor and Sub-Advisor and that the Advisor compensates each Sub-Advisor from its fees. With respect to DWS Davis Venture Value VIP, DWS Dreman High Return Equity VIP, DWS Dreman Small Mid Cap Value VIP, DWS Janus Growth & Income VIP, DWS Core Fixed Income VIP and DWS Turner Mid Cap Growth VIP, the Board also considered the estimated profitability of the Sub-Advisor based on revenues and expenses, as provided by the Sub-Advisor, and concluded that the estimated profitability realized by the Sub-Advisor in connection with the management of the Portfolio was not unreasonable. With respect to DWS Large Cap Value VIP, the Board noted that it did not receive an estimate of the Sub-Advisor's profitability in connection with the management of the Portfolio, but noted that the Advisor compensates the Sub-Advisor from its fees. The Board also considered that the Sub-Advisor for DWS Large Cap Value VIP is an affiliate of the Advisor and noted its consideration of the estimated profitability of the Advisor.

As part of its review of the investment management agreement with DIMA, the Board considered whether there will be economies of scale with respect to the overall fee structure of each Portfolio and whether the Portfolio will benefit from any economies of scale. The Board noted that each investment management agreement with DIMA included breakpoints and concluded that the overall structure was designed to share economies of scale with shareholders.

Other Benefits to the Sub-Advisor. The Board also considered the character and amount of other incidental benefits received by each Sub-Advisor and its affiliates. The Board concluded that the sub-advisory fees were reasonable in light of these fallout benefits.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the terms of each Sub-Advisory Agreement continue to be fair and reasonable and that the continuation of each Sub-Advisory Agreement is in the best interests of each Portfolio. No single factor was determinative in the Board's analysis.

Board Considerations of the Amended and Restated Investment Management Agreements for each Portfolio except DWS Large Cap Value VIP

On November 14, 2007, the Board, including all the Independent Trustees, approved an Amended and Restated Investment Management Agreement (the "Amended Management Agreement") with respect to each Portfolio. The Board also unanimously agreed to recommend that the Amended Management Agreement be approved by each Portfolio's shareholders. The Amended Management Agreement and an Administrative Services Agreement were presented to the Board and considered by it as part of a broader program initiated by DIMA to simplify and standardize the expense structures and related contracts for the DWS Funds.

The Board conducted a thorough review of the potential implications of the Amended Management Agreement and Administrative Services Agreement on each Portfolio's shareholders. The Independent Trustees met on several occasions to review and discuss the Amended Management Agreement and Administrative Services Agreement, both among themselves and with representatives of DIMA. They were assisted in this review by their independent legal counsel.

In approving the Amended Management Agreement, the Board considered the following factors, among others:

- The proposed arrangements would facilitate uniformity and conform management and administrative fee structures across all DWS Funds.
- The standardization and simplification of contract provisions and fees charged to the DWS Funds would reduce the risks of operational and compliance errors.
- With the exception of DWS Dreman High Return Equity VIP, the aggregate fee paid by each Portfolio to DIMA was expected to remain the same or be reduced under the Amended Management Agreement and Administrative Services Agreement. The Board noted that because the fund accounting fee for DWS Dreman High Return Equity VIP is currently below 0.015% of average daily net assets, the aggregate fees for the Portfolio are expected to be slightly higher (i.e., by 0.005%) under the Amended Management Agreement and Administrative Services Agreement; however, the Board considered that DIMA represented that the difference in estimated fees is less than one basis point and likely would be immaterial. The Board also considered DIMA's further representation, that the difference in estimated fees could vary slightly over time, depending on the time periods during which the current and estimated fees are compared. (For example, if the current fees and estimated fees were compared as of December 31, 2006, rather than as of October 31, 2007, the difference is 0.002%.) In addition, the separation of the investment management services and general administrative services provided by DIMA into two separate contracts, as is currently the case for certain other DWS Funds, would provide greater flexibility in the future to adjust the administrative services arrangements of the Portfolios, including increasing the fees paid for administrative services, without incurring the cost of a shareholder meeting.
- The overall scope of the services being provided by DIMA and the standard of care applicable to those services would not be reduced as a result of restructuring the agreements.
- The current expense limitation agreements would remain in place until at least September 30, 2008, the normal contract renewal period for the Portfolios.

The Board also considered that it renewed the Agreement for each Portfolio as part of its annual contract renewal process in September 2007 as described above. In connection with its review of the Amended Management Agreement, the Board considered DIMA's representation that the Board may rely on and take into account the information provided in connection with the renewal of the Agreement for each Portfolio. Accordingly, the Board took note of the factors it considered and the conclusions it reached in approving the renewal of the Agreement for each Portfolio.

Based on all of the information considered and the conclusions reached, the Board determined that the terms of the Amended Management Agreement are fair and reasonable and that the approval of the Amended Management Agreement is in the best interests of each Portfolio. No single factor was determinative in the Board's analysis.

Board Considerations of a Sub-Advisory Agreement for DWS Balanced VIP with Deutsche Asset Management International GmbH ("DeAMi")

The Board, including the Independent Trustees, approved a Sub-Advisory Agreement (the "Sub-Advisory Agreement") between DIMA and DeAMi with respect to DWS Balanced VIP (the "Portfolio") at a meeting held on November 14, 2007. The Board also unanimously agreed to recommend that the Sub-Advisory Agreement be approved by the Portfolio's shareholders. As part of its review process, the Board requested and evaluated all information it deemed reasonably necessary to evaluate the Sub-Advisory Agreement. In connection with the approval of the Sub-Advisory Agreement, the Board considered the factors described below, among others.

Nature, Quality and Extent of Services. The Board considered the nature, quality and extent of services to be provided under the Sub-Advisory Agreement. The Board noted that the Sub-Advisory Agreement was being recommended by DIMA to allow for the transitioning of portfolio management of the large cap value portion of the Portfolio to DeAMi. The Board considered the background and qualifications of DeAMi's personnel, noting that it had recently approved new sub-advisory agreements for two other DWS Funds between DIMA and DeAMi. The Board noted that these other funds are large cap value funds and that their performance has been positive since DeAMi was appointed subadviser. The Board noted that it had previously met with and received a presentation from Dr. Thomas Schuessler, the proposed new portfolio manager for the Portfolio, and noted its previous consideration of Dr. Schuessler's investment philosophy and stock selection process. The Board considered the organization of DeAMi and also reviewed DeAMi's compliance program.

On the basis of its evaluation of all the information presented, the Board concluded that the nature, quality and extent of services to be provided by DeAMi is expected to be satisfactory.

Fees; Profitability and Economies of Scale. The Board considered the sub-advisory fee structure under the Sub-Advisory Agreement and how it related to the overall management fee structure of the Portfolio, noting that the overall investment management fee will not change. The Board noted that DeAMi did not provide an estimate of profitability in connection with the management of the Portfolio, but noted that DIMA compensates DeAMi from its fees.

As part of its approval of the investment management agreement with DIMA, the Board considered whether there will be economies of scale with respect to the overall fee structure of the Portfolio and whether the Portfolio will benefit from any economies of scale. The Board noted that the investment management agreement with DIMA included two breakpoints and concluded that the overall structure was designed to share economies of scale with shareholders.

Other Benefits to DeAMi. The Board also considered the character and amount of other incidental benefits received by DeAMi and its affiliates (including DIMA). The Board noted that under the current soft dollar policies, DeAMi may not use Portfolio brokerage transactions to pay for research services generated by parties other than the executing broker-dealer ("third-party research"), although, they may obtain proprietary research prepared by an executing broker-dealer in connection with a transaction through that broker-dealer. The Board, however, may in the future, permit DeAMi to allocate brokerage to acquire third-party research. The Board concluded that the sub-advisory fees were reasonable in light of these fallout benefits.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the terms of the Sub-Advisory Agreement are fair and reasonable and that the approval of the Sub-Advisory Agreement is in the best interests of the Portfolio. No single factor was determinative in the Board's analysis.

Summary of Management Fee Evaluation by Independent Fee Consultant

October 26, 2007

Pursuant to an Order entered into by Deutsche Investment Management Americas and affiliates (collectively, "DeAM") with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Scudder Funds. My duties include preparing an annual written evaluation of the management fees DeAM charges the Funds, considering among other factors the management fees charged by other mutual fund companies for like services, management fees DeAM charges other clients for like services, DeAM's costs of supplying services under the management agreements and related profit margins, possible economies of scale if a Fund grows larger, and the nature and quality of DeAM's services, including fund performance. This report summarizes my evaluation for 2007, including my qualifications, the evaluation process for each of the DWS Scudder Funds, consideration of certain complex-level factors, and my conclusions.

Qualifications

For more than 30 years I have served in various professional capacities within the investment management business. I have held investment analysis and advisory positions, including securities analyst, portfolio strategist and director of investment policy with a large investment firm. I have also performed business management functions, including business development, financial management and marketing research and analysis.

Since 1991, I have been an independent consultant within the asset management industry. I have provided services to over 125 client organizations, including investment managers, mutual fund boards, product distributors and related organizations. Over the past several years I have completed a number of assignments for mutual fund boards, specifically including assisting boards with management contract renewal.

I hold a Master of Business Administration degree, with highest honors, from Harvard University; and Master of Science and Bachelor of Science (highest honors) degrees from the University of California at Berkeley. I am an independent director and audit committee financial expert for two closed-end mutual funds, serve on the board of directors of a private market research company, and have served in various leadership and financial oversight capacities with non-profit organizations.

Evaluation of Fees for each DWS Scudder Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 136 Fund portfolios in the DWS Scudder Fund family. For each Fund, I considered each of the key factors mentioned above, as well as any other relevant information. In doing so I worked closely with the Funds' Independent Directors in their annual contract renewal process, as well as in their approval of contracts for several new funds (documented separately).

In evaluating each Fund's fees, I reviewed comprehensive materials provided by or on behalf of DeAM, including expense information prepared by Lipper Analytical, comparative performance information, profitability data, manager histories, and other materials. I also accessed certain additional information from the Lipper, Strategic Insight, and Morningstar databases and drew on my industry knowledge and experience.

To facilitate evaluating this considerable body of information, I prepared for each Fund a document summarizing the key data elements in each area as well as additional analytics discussed below. This made it possible to consider each key data element in the context of the others.

In the course of contract renewal, DeAM agreed to implement a number of fee and expense adjustments requested by the Independent Directors which will favorably impact future fees and expenses, and my evaluation includes the effects of these changes.

Fees and Expenses Compared with Other Funds

The competitive fee and expense evaluation for each fund focused on two primary comparisons:

The Fund's contractual management fee (the advisory fee plus the administration fee where applicable) compared with those of a group of typically 12–15 funds in the same Lipper investment category (e.g. Large Capitalization Growth) having similar distribution arrangements and being of similar size.

The Fund's total expenses compared with a broader universe of funds from the same Lipper investment category and having similar distribution arrangements.

These two comparisons provide a view of not only the level of the fee compared with funds of similar scale but also the total expense the Fund bears for all the services it receives, in comparison with the investment choices available in the Fund's investment category and distribution channel. The principal figure-of-merit used in these comparisons was the subject Fund's percentile ranking against peers.

DeAM's Fees for Similar Services to Others

DeAM provided management fee schedules for all of its US domiciled fund and non-fund investment management accounts in any of the investment categories where there is a DWS Scudder Fund. These similar products included the other DWS Scudder Funds, non-fund pooled accounts, institutional accounts and sub-advisory accounts. Using this information, I calculated for each Fund the fee that would be charged to each similar product, at the subject Fund's asset level.

Evaluating information regarding non-fund products is difficult because there are varying levels of services required for different types of accounts, with mutual funds generally requiring considerably more regulatory and administrative types of service as well as having more frequent cash flows than other types of accounts. Also, while mutual fund fees for similar fund products can be expected to be similar, there will be some differences due to different pricing conditions in different distribution channels (e.g. retail funds versus those used in variable insurance products), differences in underlying investment processes and other factors.

Costs and Profit Margins

DeAM provided a detailed profitability analysis for each Fund. After making some adjustments so that the presentation would be more comparable to the available industry figures, I reviewed profit margins from investment management alone, from investment management plus other fund services (excluding distribution) provided to the Funds by DeAM (principally shareholder services), and DeAM profits from all sources, including distribution. A later section comments on overall profitability.

Economies of Scale

Economies of scale — an expected decline in management cost per dollar of fund assets as fund assets grow — are very rarely quantified and documented because of inherent difficulties in collecting and analyzing relevant data. However, in virtually every investment category that I reviewed, larger funds tend to have lower fees and lower total expenses than smaller funds. To see how each DWS Scudder Fund compares with this industry observation, I reviewed:

The trend in Fund assets over the last five years and the accompanying trend in total expenses. This shows if the Fund has grown and, if so, whether total expense (management fees as well as other expenses) have declined as a percent of assets.

Whether the Fund has break-points in its management fee schedule, the extent of the fee reduction built into the schedule and the asset levels where the breaks take effect, and in the case of a sub-advised Fund how the Fund's break-points compare with those of the sub-advisory fee schedule.

How the Fund's contractual fee schedule compares with trends in the industry data. To accomplish this, I constructed a chart showing how actual latest-fiscal-year contractual fees of the Fund and of other similar funds relate to average fund assets, with the subject Fund's contractual fee schedule superimposed.

Quality of Service — Performance

The quality-of-service evaluation focused on investment performance, which is the principal result of the investment management service. Each Fund's performance was reviewed over the past 1, 3, 5 and 10 years, as applicable, and compared with that of other funds in the same investment category and with a suitable market index.

In addition, I calculated and reviewed risk-adjusted returns relative to an index of similar mutual funds' returns and a suitable market index. The risk-adjusted returns analysis provides a way of determining the extent to which the Fund's return comparisons are mainly the product of investment value-added (or lack thereof) or alternatively taking considerably more or less risk than is typical in its investment category.

I also received and considered the history of portfolio manager changes for each Fund, as this provided an important context for evaluating the performance results.

Complex-Level Considerations

While this evaluation was conducted mainly at the individual fund level, there are some issues relating to the reasonableness of fees that can alternatively be considered across the whole fund complex:

I reviewed DeAM's profitability analysis for all DWS Scudder funds, with a view toward determining if the allocation procedures used were reasonable and how profit levels compared with public data for other investment managers.

I considered whether DeAM and affiliates receive any significant ancillary or "fall-out" benefits that should be considered in interpreting the direct profitability results. These would be situations where serving as the investment manager of the Funds is beneficial to another part of the Deutsche Bank organization.

I considered how aggregated DWS Scudder Fund expenses had varied over the years, by asset class and in the context of trends in asset levels.

I reviewed the structure of the DeAM organization, trends in staffing levels, and information on compensation of investment management and other professionals compared with industry data.

Findings

Based on the process and analysis discussed above, which included reviewing a wide range of information from management and external data sources and considering among other factors the fees DeAM charges other clients, the fees charged by other fund managers, DeAM's costs and profits associated with managing the Funds, economies of scale, possible fall-out benefits, and the nature and quality of services provided, in my opinion the management fees charged the DWS Scudder Funds are reasonable.

Thomas H. Mack

Thomas H. Mack

Trustees and Officers

The following table presents certain information regarding the Board Members and Officers of the Trust as of December 31, 2007. 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 individual is c/o Deutsche Asset Management, 222 South Riverside Plaza, Chicago, Illinois 60606. Each Board Member's term of office extends until the next shareholders' meeting called for the purpose of electing such Board Members and until the election and qualification of a successor, or until such Board Member sooner dies, retires, resigns or is removed as provided in the governing documents of the Trust.

Independent Board Members

Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served[1]	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Funds in Fund Complex Overseen
Paul K. Freeman (1950) Chairperson since 2007, and Board Member, 2002–present	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)	59
John W. Ballantine (1946) Board Member, 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: Healthways, Inc. (provider of disease and care management services); Portland General Electric (utility company); Stockwell Capital Investments PLC (private equity). Former Directorships: First Oak Brook Bancshares, Inc. and Oak Brook Bank	59
Donald L. Dunaway (1937) Board Member, 1980–present	Retired; formerly, Executive Vice President, A.O. Smith Corporation (diversified manufacturer) (1963–1994)	59
James R. Edgar (1946) Board Member, 1999–present	Distinguished Fellow, University of Illinois, Institute of Government and Public Affairs (1999–present); formerly, Governor, State of Illinois (1991–1999). Directorships: John B. Sanfilippo & Son, Inc. (processor/packager/marketer of nuts, snacks and candy products); Horizon Group Properties, Inc.; Youbet.com (online wagering platform); Alberto-Culver Company (manufactures, distributes and markets health and beauty care products)	59
Robert B. Hoffman (1936) Board Member, 1981–present	Retired; formerly, Chairman, Harnischfeger Industries, Inc. (machinery for the mining and paper industries) (1999–2001); 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)	59
William McClayton (1944) Board Member, 2004–present	Chief Administrative Officer, Diamond Management & Technology Consultants, Inc. (global management consulting firm) (2001–present); formerly, Senior Partner, Arthur Andersen LLP (accounting) (1966–2001). Directorship: Board of Managers, YMCA of Metropolitan Chicago. Formerly, Trustee, Ravinia Festival.	59
Shirley D. Peterson (1941) Board Member, 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); Wolverine World Wide, Inc. (designer, manufacturer and marketer of footwear) (April 2005–present); Trustee, Bryn Mawr College. Former Directorship: Bethlehem Steel Corp.	59
Robert H. Wadsworth (1940) Board Member, 2004–present	President, Robert H. Wadsworth & Associates, Inc. (consulting firm) (1983 to present). Formerly, Trustee of New York Board DWS Funds.	62

Officers[2]

Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served[1]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Michael G. Clark[4] (1965) President, 2006–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds; Director, ICI Mutual Insurance Company (since October 2007); formerly, Director of Fund Board Relations (2004–2006) and Director of Product Development (2000–2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999–2000)
Philip J. Collora (1945) Vice President and Assistant Secretary, 1986–present	Director[3], Deutsche Asset Management

Name, Year of Birth, Position(s) Held with the Fund and Length of Time Served[1]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Paul H. Schubert[4] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
John Millette[5] (1962) Secretary, 2001–present	Director[3], Deutsche Asset Management
Patricia DeFilippis[4] (1963) Assistant Secretary, 2005–present	Vice President, Deutsche Asset Management (since June 2005); formerly, Counsel, New York Life Investment Management LLC (2003–2005); legal associate, Lord, Abbett & Co. LLC (1998–2003)
Elisa D. Metzger[4,] (1962) Assistant Secretary 2005–present	Director[3], Deutsche Asset Management (since September 2005); formerly, Counsel, Morrison and Foerster LLP (1999–2005)
Caroline Pearson[5] (1962) Assistant Secretary, 1998–present	Managing Director[3], Deutsche Asset Management
Paul Antosca[5] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Kathleen Sullivan D'Eramo[5] (1957) Assistant Treasurer, 2003–present	Director[3], Deutsche Asset Management
Jason Vazquez[4] (1972) Anti-Money Laundering Compliance Officer, 2007–present	Vice President, Deutsche Asset Management (since 2006); formerly, AML Operations Manager for Bear Stearns (2004–2006), Supervising Compliance Principal and Operations Manager for AXA Financial (1999–2004)
Robert Kloby[4] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management (2004–present); formerly, Chief Compliance Officer/Chief Risk Officer, Robeco USA (2000–2004); Vice President, The Prudential Insurance Company of America (1988–2000); E.F. Hutton and Company (1984–1988)

1 *Length of time served represents the date that each Board Member was first elected to the common board of Board Members 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 Board Members.*

2 *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.*

3 *Executive title, not a board directorship.*

4 *Address: 345 Park Avenue, New York, New York 10154.*

5 *Address: Two International Place, Boston, Massachusetts 02110.*

The Trust's Statement of Additional Information ("SAI") includes additional information about the Board Members. 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: (800) 621-1048.

DWS Scudder is part of Deutsche Asset Management, which is the marketing name in the US for the asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS 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.

This information must be preceded or accompanied by a current prospectus.

Portfolio changes should not be considered recommendations for action by individual investors.

DWS Scudder Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 778-1482

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DWS SCUDDER
Deutsche Bank Group

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This report must be preceded or accompanied by the current prospectus. Read it carefully before investing.

Scudder Destinations[SM], a variable, fixed and market value-adjusted deferred annuity contract (policy form series L-8166 and L-1550), is issued by **Kemper Investors Life Insurance Company,** administrative office: 2000 Wade Hampton Blvd., Greenville, SC 29615-1064. Securities are distributed by **Investors Brokerage Services, Inc.**, administrative office: 1707 North Randall Road, Suite 310, Elgin, IL 60123-9409. May not be available in all states. The contract contains limitations and policy forms may vary by state.

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Kemper Investors Life Insurance Company

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