Annual report to contract holders for the twelve months ended December 31, 2008

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.

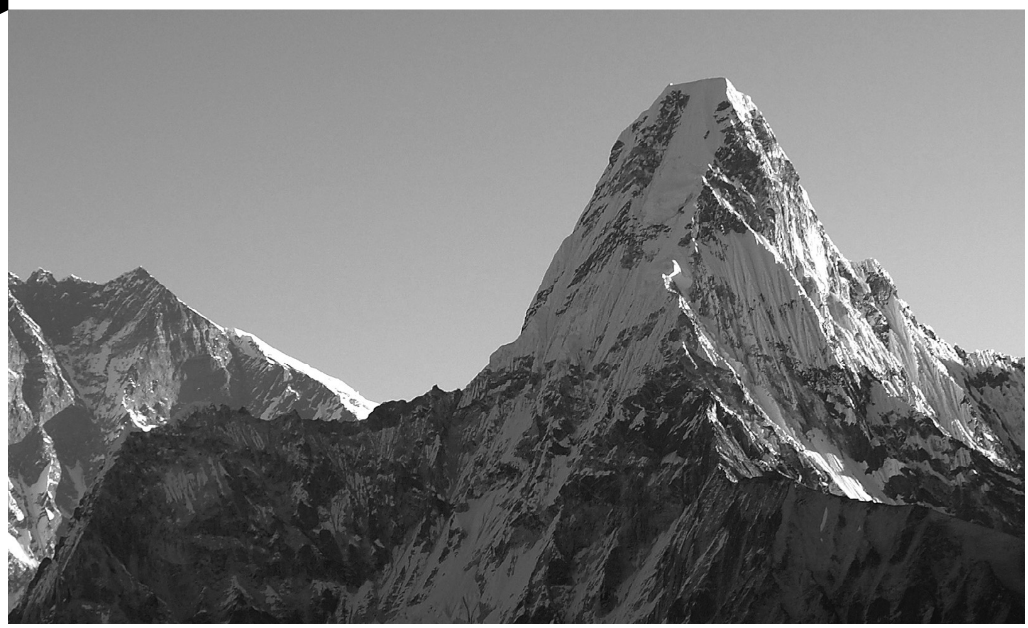
DWS Investments VIT Funds

DWS Variable Series I

DWS Variable Series II

AIM V.I. Utilities Fund

Annual Report to Shareholders ▪ December 31, 2008



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 Invesco Aim Web site, invescoaim.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, 2008, is available at our Web site. Go to invescoaim.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.

It is anticipated that the businesses of the affiliated investment adviser firms — Invesco Aim Advisors, Inc., Invesco Aim Capital Management, Inc., Invesco Private Asset Management, Inc. and Invesco Global Asset Management (N.A.), Inc. — will be combined into Invesco Institutional (N.A.), Inc., and the consolidated adviser firm will be renamed Invesco Advisers, Inc., on or about Aug. 1, 2009. Additional information will be posted at invescoaim.com on or about Aug. 1, 2009.

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

Invesco Aim Distributors, Inc.

Management's Discussion of Fund Performance

Performance summary

Although there were no safe havens from widespread stock market losses, utilities stocks generally held up somewhat better than the broad market in 2008, due to their defensive nature. Consequently, Series I shares of AIM V.I. Utilities Fund, excluding variable product issuer charges, fared better than the broad market, as measured by the S&P 500 Index, for the year ended December 31, 2008.▼ The Fund benefited from a litigation settlement, and its cash exposure. Conversely, the Fund's electric utilities and multi-utilities holdings detracted from performance.

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

Fund vs. Indexes

Total returns, 12/31/07 to 12/31/08, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	-32.35%
Series II Shares	-32.51
S&P 500 Index▼ (Broad Market Index)	-36.99
Lipper VUF Utility Funds Category Average▼ (Peer Group)	-35.17

▼Lipper Inc.

How we invest

We invest primarily in natural gas, electricity and telecommunication services companies, selecting stocks based on our empirical research of individual companies. Our fundamental 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 may benefit from industry trends, such as increased demand for certain products and deregulation of state markets. We look for companies 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 (GDP) growth and interest rate changes.

We seek to manage risk by:

- Diversifying across most industries and sub-industries within the utilities sector.
- Owning both regulated and unregulated utilities. Unregulated companies generally provide greater growth potential, while regulated firms generally provide more stable dividends and greater principal protection.
- 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 a deterioration in a firm's fundamentals or due to a change in the operating environment.
- Valuation becomes too high.
- Corporate strategy changes.

Market conditions and your Fund

Several factors contributed to the negative performance of most major market indexes for the fiscal year ended December 31, 2008.[1] The chief catalyst was the ongoing subprime loan crisis and its far reaching effects on overall credit availability. Although inflation weighed heavily on the minds of consumers and investors in the first half of 2008, falling home values and commodity prices alleviated short-term inflationary pressures beginning mid-year as unemployment and global economic instability took center stage.

The U.S. Federal Reserve Board (the Fed) continued the monetary easing policy it began in 2007. Since December 2007, the Fed cut the federal funds target rate from 4.25% to a range of zero to 0.25%[2] in an effort to inject liquidity into weakening credit markets. Real GDP contracted in the third and fourth quarters of 2008. This contraction was largely due to a decrease in personal consumption and residential investment. Inflation, as measured by the seasonally-adjusted Consumer Price Index, virtually ground to a halt following sharp declines in energy prices in the second half of the year. However, unemployment trended higher during the year and ultimately reached a seasonally adjusted rate of 7.2% in December.[3]

Against this backdrop, consumer staples, health care and utilities were among the best performing sectors of the S&P 500 Index. Conversely, financials, materials and information technology were the worst performing sectors.

Portfolio Composition

By sector

Utilities	77.3%
Telecommunication Services	15.2
Energy	5.7
Money Market Funds Plus Other Assets Less Liabilities	*1.8*

Top 10 Equity Holdings*

1.	AT&T Inc.	6.3%
2.	Exelon Corp.	4.9
3.	Verizon Communications Inc.	4.8
4.	FPL Group, Inc.	4.8
5.	Entergy Corp.	4.2
6.	Alaska Communications Systems Group Inc.	4.1
7.	Sempra Energy	4.1
8.	PG&E Corp.	3.8
9.	Edison International	3.5
10.	Equitable Resources, Inc.	3.4

Total Net Assets	$82.4 million
Total Number of Holdings*	30

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.

Utilities stocks tend to be sensitive to interest rate movements because they generally pay dividends and can be particularly attractive when interest rates are low. Indeed, yields of many utility stocks generally supported utilities stocks somewhat as interest rates declined in 2008, causing the utilities sector to outperform the broad market as measured by the S&P 500 Index.

During the year, the wireless telecommunication services industry held up better than other industries in which the Fund was invested. The Fund also benefited from a litigation settlement during the year. Additionally, our cash position, which averaged 2.55% for the year and fell within our typical allocation, was a positive contributor against severe market volatility. On the other hand, Fund holdings in the electric utilities and multi-utilities industries generally detracted from performance.

Electric utility **Southern Company** was the largest equity contributor to Fund performance during the year. Although Southern operates as a regulated utility, it benefited from its positioning in states that offer fairly stable regulatory environments and growing customer bases. Telecom provider **FairPoint Communications**, another holding which was a top contributor to performance in 2008, benefited from the completion of its merger with **Verizon Communications'** (also a Fund holding) landline operations in northern New England.

On the other hand, **Williams Companies**, **El Paso** and **Questar** — holdings leveraged to natural gas — were the largest detractors from Fund performance for the year. These gas companies are largely exploration and production driven. Therefore, their growth depends on successful production of new and existing wells, as well as the price of natural gas, both of which fell during the year.

Following recent events, we were less concerned about the possible repeal of the dividend tax cut as significant tax hikes seemed unlikely in the near term given economic uncertainty. Interest rate and inflationary trends, however, presented a cause for concern going forward.

Because carbon dioxide emissions remain a popular topic with legislators, we positioned the Fund with more exposure to natural gas and nuclear power companies. Natural gas has one-third the carbon dioxide emissions of coal. Nuclear power generation produces no greenhouse gas emissions. During the year, we purchased **Oneok**, which processes and distributes natural gas to Oklahoma, Kansas and Texas, and **Public Service Enterprise Group**, which supplies nuclear power to the Northeast and Mid-Atlantic markets. Additionally, we continued to maintain our focus on holding what we believed were attractively priced stocks of strong companies with reasonable growth prospects and attractive dividend yields.

As always, we thank you for your continued investment in AIM V.I. Utilities Fund.

1 Lipper Inc.
2 U.S. Federal Reserve
3 Bureau of Labor Statistics

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

See important Fund and index disclosures later in this report.

Meggan Walsh
Chartered Financial Analyst, senior portfolio manager, is lead manager of AIM V.I. Utilities Fund. She has worked in the investment industry since 1987 and joined Invesco Aim in 1991. Ms. Walsh earned a B.S. in finance from the University of Maryland and an M.B.A. from Loyola. She joined the team on Jan. 23, 2009, after the close of the reporting period.

Davis Paddock
Chartered Financial Analyst, portfolio manager, is co-manager of AIM V.I. Utilities Fund. He joined Invesco Aim in 2001. Mr. Paddock earned his B.A. and M.B.A. from The University of Texas at Austin. He joined the team on Jan. 23, 2009, after the close of the reporting period.

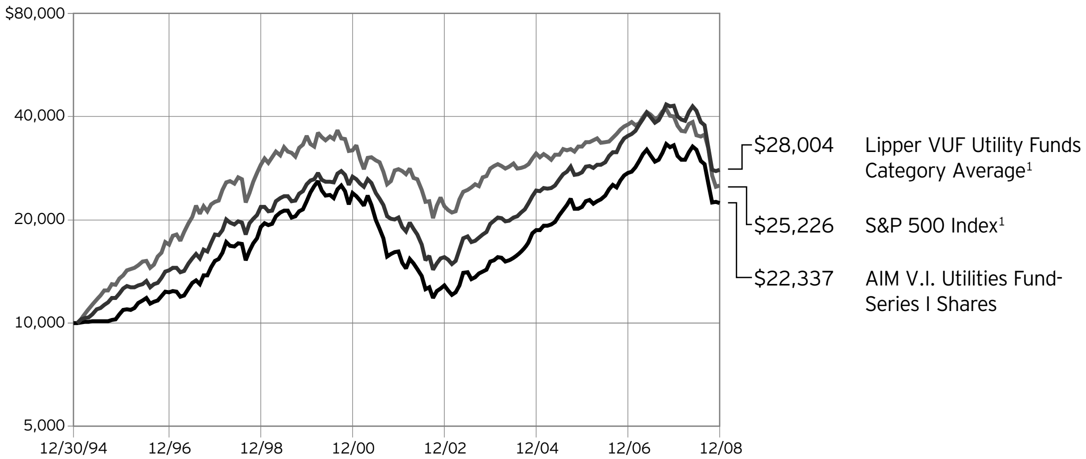
John Segner left the team on Jan. 23, 2009, after the close of the reporting period.

Assisted by the Utilities Team

Your Fund's Long-Term Performance

Results of a $10,000 Investment - Oldest Share Class since Inception

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



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.

Average Annual Total Returns
As of 12/31/08

Series I Shares	
Inception (12/30/94)	5.91%
10 Years	1.61
5 Years	8.13
1 Year	-32.35
Series II Shares	
10 Years	1.36%
5 Years	7.88
1 Year	-32.51

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 0.94% and 1.19%, 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 the Invesco 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, 2010. See current prospectus for more information.

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, 2008, and is based on total net assets.
- Unless otherwise noted, all data provided by Invesco Aim.

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.

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

Although the Fund's return during certain periods was positively affected by its investments in initial public offerings (IPOs), there can be no assurance that the Fund will have favorable IPO investment opportunities in the future.

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

The **Lipper VUF Utility Funds Category Average** represents an average of all of the variable insurance underlying 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 Chartered Financial Analyst® (CFA®) designation is a globally recognized standard for measuring the competence and integrity of investment professionals.

The returns shown in 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 MSCI Inc. and Standard & Poor's.

Schedule of Investments[a]

December 31, 2008

	Shares	Value
Common Stocks–98.20%		
Electric Utilities–36.39%		
Duke Energy Corp.	160,000	$ 2,401,600
E.ON AG (Germany)	64,000	2,600,547
Edison International	90,000	2,890,800
Entergy Corp.	42,000	3,491,460
Exelon Corp.	73,000	4,059,530
FirstEnergy Corp.	50,000	2,429,000
FPL Group, Inc.	78,000	3,925,740
Pepco Holdings, Inc.	121,000	2,148,960
Portland General Electric Co.	87,000	1,693,890
PPL Corp.	84,000	2,577,960
Southern Co.	48,000	1,776,000
		29,995,487
Gas Utilities–10.44%		
AGL Resources Inc.	87,000	2,727,450
Equitable Resources, Inc.	84,000	2,818,200
ONEOK, Inc.	67,000	1,951,040
Questar Corp.	34,000	1,111,460
		8,608,150
Independent Power Producers & Energy Traders–3.09%		
NRG Energy, Inc.[b]	109,000	2,542,970
Integrated Telecommunication Services–15.16%		
Alaska Communications Systems Group Inc.	360,000	3,376,800
AT&T Inc.	182,000	5,187,000
Verizon Communications Inc.	116,000	3,932,400
		12,496,200
Multi-Utilities–27.45%		
Ameren Corp.	75,000	$ 2,494,500
CMS Energy Corp.	238,000	2,406,180
Dominion Resources, Inc.	66,000	2,365,440
National Grid PLC (United Kingdom)	208,000	2,085,831
PG&E Corp.	81,000	3,135,510
Public Service Enterprise Group Inc.	64,000	1,866,880
Sempra Energy	79,000	3,367,770
Wisconsin Energy Corp.	50,000	2,099,000
Xcel Energy, Inc.	151,000	2,801,050
		22,622,161
Oil & Gas Storage & Transportation–5.67%		
El Paso Corp.	275,000	2,153,250
Williams Cos., Inc. (The)	174,000	2,519,520
		4,672,770
Total Common Stocks (Cost $80,950,721)		80,937,738
Money Market Funds–1.80%		
Liquid Assets Portfolio–Institutional Class[c]	743,422	743,422
Premier Portfolio–Institutional Class[c]	743,422	743,422
Total Money Market Funds (Cost $1,486,844)		1,486,844
TOTAL INVESTMENTS–100.00% (Cost $82,437,565)		82,424,582
OTHER ASSETS LESS LIABILITIES–0.00%		(3,714)
NET ASSETS–100.00%		$82,420,868

Notes to Schedule of Investments:

(a) Industry and/or sector classifications used in this report are generally according to the Global Industry Classification Standard, which was developed by and is the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.
(b) Non-income producing security.
(c) The money market fund and the Fund are affiliated by having the same investment advisor.

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

Statement of Assets and Liabilities

December 31, 2008

Assets:	
Investments, at value (Cost $80,950,721)	$80,937,738
Investments in affiliated money market funds, at value and cost	1,486,844
Total investments (Cost $82,437,565)	82,424,582
Receivables for:	
Fund shares sold	1,116
Dividends	361,794
Fund expenses absorbed	6,322
Investment for trustee deferred compensation and retirement plans	29,104
Total assets	82,822,918
Liabilities:	
Payables for:	
Fund shares reacquired	274,202
Accrued fees to affiliates	51,156
Accrued other operating expenses	36,786
Trustee deferred compensation and retirement plans	39,906
Total liabilities	402,050
Net assets applicable to shares outstanding	$82,420,868
Net assets consist of:	
Shares of beneficial interest	$79,762,001
Undistributed net investment income	3,155,248
Undistributed net realized gain (loss)	(488,333)
Unrealized appreciation (depreciation)	(8,048)
	$82,420,868
Net Assets:	
Series I	$80,704,195
Series II	$ 1,716,673
Shares outstanding, $0.001 par value per share, unlimited number of shares authorized:	
Series I	6,031,270
Series II	129,115
Series I:	
Net asset value per share	$ 13.38
Series II:	
Net asset value per share	$ 13.30

Statement of Operations

For the year ended December 31, 2008

Investment income:	
Dividends (net of foreign withholding taxes of $47,697)	$ 4,243,801
Dividends from affiliated money market funds (includes securities lending income of $53,222)	153,371
Total investment income	4,397,172
Expenses:	
Advisory fees	762,852
Administrative services fees	340,852
Custodian fees	12,427
Distribution fees — Series II	5,943
Transfer agent fees	19,459
Trustees' and officers' fees and benefits	19,596
Other	56,317
Total expenses	1,217,446
Less: Fees waived	(32,119)
Net expenses	1,185,327
Net investment income	3,211,845
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	1,511,674
Foreign currencies	(5,308)
	1,506,366
Change in net unrealized appreciation (depreciation) of:	
Investment securities	(52,817,766)
Foreign currencies	(1,236)
	(52,819,002)
Net realized and unrealized gain (loss)	(51,312,636)
Net increase (decrease) in net assets resulting from operations	$(48,100,791)

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, 2008 and 2007

	2008	2007
Operations:		
Net investment income	$ 3,211,845	$ 3,053,887
Net realized gain	1,506,366	12,120,624
Change in net unrealized appreciation (depreciation)	(52,819,002)	12,996,939
Net increase (decrease) in net assets resulting from operations	(48,100,791)	28,171,450
Distributions to shareholders from net investment income:		
Series I	(2,992,914)	(2,819,765)
Series II	(56,469)	(60,178)
Total distributions from net investment income	(3,049,383)	(2,879,943)
Distributions to shareholders from net realized gains:		
Series I	(10,996,910)	(7,308,544)
Series II	(235,824)	(167,024)
Total distributions from net realized gains	(11,232,734)	(7,475,568)
Share transactions–net:		
Series I	(13,874,354)	(820,698)
Series II	(362,485)	504,038
Net increase (decrease) in net assets resulting from share transactions	(14,236,839)	(316,660)
Net increase (decrease) in net assets	(76,619,747)	17,499,279
Net assets:		
Beginning of year	159,040,615	141,541,336
End of year (includes undistributed net investment income of $3,155,248 and $3,000,396, respectively)	$ 82,420,868	$159,040,615

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

Notes to Financial Statements

December 31, 2008

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

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

The Fund currently offers two classes of shares, Series I and Series II, both of which are offered to insurance company separate accounts funding variable annuity contracts and variable life insurance policies ("variable products").

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

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

A security listed or traded on an exchange (except convertible 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, American Depositary Receipts and domestic and foreign index futures. Foreign securities may have additional risks including exchange rate changes, potential for sharply devalued currencies and high inflation, political and 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. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

B. Securities Transactions and Investment Income — Securities transactions are accounted for on a trade date basis. Realized gains or losses on sales are computed on the basis of specific identification of the securities sold. Interest income 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 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, the investment advisor 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 up to three years after the filing of the return for the tax period.

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

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

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. Other 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.

The Fund may invest a large percentage of assets in securities of a limited number of companies, such that each investment may have 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.

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.

J. Securities Lending — 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 sponsored agencies. Cash collateral received in connection with these loans is invested in short-term money market instruments or affiliated money market funds and is shown as such on the Schedule of Investments. 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. Upon the failure of the borrower to return the securities, collateral may be liquidated and the securities may be purchased on the open market to replace the loaned securities. The Fund could 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. Dividends received on cash collateral investments for securities lending transactions, which are net of compensation to counterparties, is included in Dividends from affiliates on the Statement of Operations. The aggregate value of securities out on loan is shown as a footnote on the Statement of Assets and Liabilities, if any.

K. 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.

L. 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 Invesco Aim Advisors, Inc. (the "Advisor" or "Invesco Aim"). Under the terms of the investment advisory agreement, the Fund pays an advisory fee to the Advisor based on the annual rate of 0.60% of the Fund's average daily net assets.

Under the terms of a master sub-advisory agreement approved by shareholders of the Fund, effective May 1, 2008, between the Advisor and each of 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., Invesco Senior Secured Management, Inc. and Invesco Trimark Ltd. (collectively, the "Affiliated Sub-Advisors") the Advisor, not the Fund, may pay 40% of the fees paid to the Advisor to any such Affiliated Sub-Advisor(s) that provide discretionary investment management services to the Fund based on the percentage of assets allocated to such Sub-Advisor(s).

The Advisor 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, 2010. 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.

Also, the Advisor has contractually agreed, through at least April 30, 2010, to waive the advisory fee payable by the Fund in an amount equal to 100% of the net advisory fees the Advisor receives from the affiliated money market funds on investments by the Fund of uninvested cash (excluding investments of cash collateral from securities lending) in such affiliated money market funds.

For the year ended December 31, 2008, the Advisor waived advisory fees of $32,119.

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, 2008, Invesco did not reimburse any expenses.

The Trust has entered into a master administrative services agreement with Invesco Aim pursuant to which the Fund has agreed to pay Invesco Aim a fee for costs incurred in providing accounting services and fund administrative services to the Fund and to reimburse Invesco 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, 2008, Invesco Aim was paid $50,000 for accounting and fund administrative services and reimbursed $290,852 for services provided by insurance companies.

The Trust has entered into a transfer agency and service agreement with Invesco Aim Investment Services, Inc. ("IAIS") pursuant to which the Fund has agreed to pay IAIS a fee for providing transfer agency and shareholder services to the Fund and reimburse IAIS for certain expenses incurred by IAIS in the course of providing such services. For the year ended December 31, 2008, expenses incurred under the agreement are shown in the Statement of Operations as transfer agent fees.

The Trust has entered into a master distribution agreement with Invesco Aim Distributors, Inc. ("IADI") 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 IADI 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, 2008, 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 Invesco Aim, IAIS and/or IADI.

NOTE 3—Supplemental Information

The Fund adopted the provisions of Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157), effective with the beginning of the Fund's fiscal year. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment's assigned level,

Level 1 — Prices are determined using quoted prices in an active market for identical assets.

Level 2 — Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3 — Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund's own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

Below is a summary of the tiered valuation input levels, as of the end of the reporting period, December 31, 2008. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Input Level	Investments in Securities
Level 1	$77,738,204
Level 2	4,686,378
Level 3	—
	$82,424,582

NOTE 4—Trustees' and Officers' Fees and Benefits

"Trustees' and Officers' Fees and Benefits" include amounts accrued by the Fund to pay remuneration to certain Trustees and Officers of the Fund. Trustees have the option to defer compensation payable by the Fund, and "Trustees' and Officers' Fees and Benefits" also include amounts accrued by the Fund to fund such deferred compensation amounts. Those Trustees who defer compensation have the option to select various 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 Officers' Fees and Benefits" include amounts accrued by the Fund to fund such retirement benefits. Obligations under the deferred compensation and retirement plans represent unsecured claims against the general assets of the Fund.

During the year ended December 31, 2008, the Fund paid legal fees of $3,432 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 5—Cash Balances

The Fund is permitted to temporarily carry a negative or overdrawn balance in its account with The State Street Bank and Trust Company, 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 Invesco Aim, not to exceed the contractually agreed upon rate.

NOTE 6—Distributions to Shareholders and Tax Components of Net Assets

Tax Character of Distributions to Shareholders Paid During the Years Ended December 31, 2008 and 2007:

	2008	2007
Ordinary income	$ 3,099,788	$ 3,761,176
Long-term capital gain	11,182,329	6,594,335
Total distributions	$14,282,117	$10,355,511

Tax Components of Net Assets at Period-End:

	2008
Undistributed ordinary income	$ 3,213,145
Undistributed long-term gain	810,064
Net unrealized appreciation (depreciation) — investments	(225,009)
Net unrealized appreciation — other investments	4,935
Temporary book/tax differences	(51,285)
Capital loss carryforward	(919,643)
Post-October deferrals	(173,340)
Shares of beneficial interest	79,762,001
Total net assets	$82,420,868

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 (depreciation) difference is attributable primarily to wash sales.

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.

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, 2008 which expires as follows:

Expiration	Capital Loss Carryforward*
December 31, 2009	$919,643

* 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 7—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, 2008 was $18,942,992 and $41,289,520, respectively. Cost of investments on a tax basis includes the adjustments for financial reporting purposes as of the most recently completed Federal income tax reporting period-end.

Unrealized Appreciation (Depreciation) of Investment Securities on a Tax Basis	
Aggregate unrealized appreciation of investment securities	$ 11,412,323
Aggregate unrealized (depreciation) of investment securities	(11,637,332)
Net unrealized appreciation (depreciation) of investment securities	$ (225,009)

Cost of investments for tax purposes is $82,649,591.

NOTE 8—Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of foreign currency transactions, on December 31, 2008, undistributed net investment income was decreased by $7,610 and undistributed net realized gain (loss) was increased by $7,610. This reclassification had no effect on the net assets of the Fund.

NOTE 9—Share Information

	Summary of Share Activity			
	Year ended December 31,			
	2008[a]		2007	
	Shares	Amount	Shares	Amount
Sold:				
Series I	1,346,697	$ 28,997,020	2,496,664	$ 59,127,619
Series II	26,485	551,996	47,500	1,114,914
Issued as reinvestment of dividends:				
Series I	1,077,799	13,989,824	416,289	10,128,309
Series II	22,659	292,293	9,404	227,202
Reacquired:				
Series I	(2,890,405)	(56,861,198)	(2,965,731)	(70,076,626)
Series II	(58,398)	(1,206,774)	(35,116)	(838,078)
Net decrease in share activity	(475,163)	$(14,236,839)	(30,990)	$ (316,660)

(a) There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 60% 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, Invesco Aim and/or Invesco Aim affiliates may make payments to these entities, which are considered to be related to the Fund, for providing services to the Fund, Invesco Aim and or Invesco 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 10—Financial Highlights

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

	Net asset value, beginning of period	Net investment income[a]	Net gains on securities (both realized and unrealized)	Total from investment operations	Dividends from net investment income	Distributions from net realized gains	Total Distributions	Net asset value, end of period	Total Return[b]	Net assets, end of period (000s omitted)	Ratio of expenses to average net assets with fee waivers and/or expenses absorbed	Ratio of expenses to average net assets without fee waivers and/or expenses absorbed	Ratio of net investment income to average net assets	Portfolio turnover[c]
Series I														
Year ended 12/31/08	$23.97	$0.52	$(8.36)	$(7.84)	$(0.59)	$(2.16)	$(2.75)	$13.38	(32.35)%	$ 80,704	0.93%[d]	0.96%[d]	2.53%[d]	15%
Year ended 12/31/07	21.23	0.47	3.94	4.41	(0.47)	(1.20)	(1.67)	23.97	20.64	155,748	0.93	0.94	1.97	30
Year ended 12/31/06	17.83	0.47	4.06	4.53	(0.70)	(0.43)	(1.13)	21.23	25.46	139,080	0.93	0.96	2.40	38
Year ended 12/31/05	15.61	0.42	2.21	2.63	(0.41)	—	(0.41)	17.83	16.83	114,104	0.93	0.96	2.49	49
Year ended 12/31/04	12.95	0.42	2.57	2.99	(0.33)	—	(0.33)	15.61	23.65	159,554	1.01	1.01	3.09	52
Series II														
Year ended 12/31/08	23.80	0.46	(8.28)	(7.82)	(0.52)	(2.16)	(2.68)	13.30	(32.51)	1,717	1.18[d]	1.21[d]	2.28[d]	15
Year ended 12/31/07	21.12	0.41	3.91	4.32	(0.44)	(1.20)	(1.64)	23.80	20.32	3,293	1.18	1.19	1.72	30
Year ended 12/31/06	17.76	0.42	4.06	4.48	(0.69)	(0.43)	(1.12)	21.12	25.25	2,462	1.18	1.21	2.15	38
Year ended 12/31/05	15.57	0.38	2.20	2.58	(0.39)	—	(0.39)	17.76	16.55	801	1.18	1.21	2.24	49
Year ended 12/31/04[e]	12.63	0.26	2.68	2.94	—	—	—	15.57	23.28	602	1.28[f]	1.28[f]	2.82[f]	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, if applicable and do not reflect charges assessed in connection with a variable product, which if included would reduce total returns.
(c) Portfolio turnover is calculated at the fund level and is not annualized for periods less than one year, if applicable.
(d) Ratios are based on average daily net assets (000's omitted) of $124,765 and $2,377 for Series I and Series II, respectively.
(e) Commencement date of April 30, 2004.
(f) Annualized.

NOTE 11—Legal Proceedings

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

Pending Litigation and Regulatory Inquiries

Civil lawsuits, including purported class action and shareholder derivative suits, have been filed against certain of the AIM Funds, Invesco Funds Group, Inc. ("IFG"), Invesco Aim, IADI and/or related entities and individuals alleging that the defendants permitted improper market timing and related activity in the AIM Funds.

These lawsuits allege as theories of recovery, depending on the lawsuit, violations of various provisions of the Federal and state securities laws and the Employee Retirement Income Security Act of 1974, as amended ("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 were 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 Invesco 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 ERISA purportedly brought on behalf of participants in the 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 January 5, 2008, the parties reached an agreement in principle to settle both the Consolidated Amended Class Action Complaint and Consolidated Amended Fund Derivative Complaint, subject to the MDL Court approval. Individual class members have the right to object. On December 15, 2008, the parties reached an agreement in principle to settle the Amended Class Action Complaint for Violations of ERISA, subject to the MDL Court approval. Individual class members have the right to object. No payments are required under the settlement; however, the parties agreed that certain limited changes to benefit plans and participants' accounts would be made.

IFG, Invesco Aim, IADI 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, Invesco Aim and IADI 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, Invesco Aim and/or related entities and individuals in the future.

Management of Invesco Aim and the Fund believe that the outcome of the Pending Litigation and Regulatory Inquiries described above will have no material adverse affect on the Fund or on the ability of Invesco Aim and IADI to provide ongoing services to 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, 2008, 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, 2008 by correspondence with the custodian provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

February 10, 2009
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, 2008, through December 31, 2008.

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 (07/01/08)	Ending Account Value (12/31/08)[1]	Expenses Paid During Period[2]	Ending Account Value (12/31/08)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$697.40	$3.97	$1,020.46	$4.72	0.93%
Series II	1,000.00	696.50	5.03	1,019.20	5.99	1.18

[1] The actual ending account value is based on the actual total return of the Fund for the period July 1, 2008, through December 31, 2008, 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 184/366 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, 2008:

Federal and State Income Tax

Long-Term Capital Gain Dividends	$11,182,329
Corporate Dividends Received Deduction*	100.00%

* 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 Directorship(s) Held by Trustee
Interested Persons			
Martin L. Flanagan[1] — 1960 Trustee	2007	Executive Director, Chief Executive Officer and President, Invesco Ltd. (ultimate parent of Invesco Aim and a global investment management firm); Chairman, Invesco Aim Advisors, Inc. (registered investment advisor); Director, Chairman, Chief Executive Officer and President, IVZ Inc. (holding company); INVESCO North American Holdings, Inc. (holding company); and, 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: Director, Chief Executive Officer and President, Invesco Holding Company Limited (parent of Invesco Aim and a global investment management firm); 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	Head of North American Retail and Senior Managing Director, Invesco Ltd.; Director, Chief Executive Officer and President, Invesco Trimark Dealer Inc. (formerly AIM Mutual Fund Dealer Inc.) (registered broker dealer), Invesco Aim Advisors, Inc., and 1371 Preferred Inc. (holding company); Director, Chairman, Chief Executive Officer and President, Invesco Aim Management Group, Inc. (financial services holding company) and Invesco Aim 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, Invesco Aim Distributors, Inc. (registered broker dealer); Director and Chairman, Invesco 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 Invesco Canada Holdings Inc. (formerly AIM Canada Holdings Inc.) (holding company); Chief Executive Officer, 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); Director and Chief Executive Officer, Invesco Trimark Ltd./Invesco Trimark Ltèe (formerly AIM Funds Management Inc. d/b/a INVESCO Enterprise Services) (registered investment advisor and registered transfer agent) and Invesco Trimark Dealer Inc. (formerly AIM Mutual Fund Dealer Inc.) (registered broker dealer); Trustee, President and Principal Executive Officer of The AIM Family of Funds® (other than AIM Treasurer's Series Trust and Short-Term Investments Trust); Trustee and Executive Vice President, The AIM Family of Funds® (AIM Treasurer's Series Trust and Short-Term Investments Trust only); and Manager, Invesco PowerShares Capital Management LLC Formerly: President, Invesco Trimark Dealer Inc.; Director and President, AIM Trimark Corporate Class Inc. and AIM Trimark Canada Fund Inc.; Director and President, Invesco Trimark Ltd./Invesco Trimark Ltèe (formerly AIM Funds Management Inc. d/b/a INVESCO Enterprise Services); Senior Managing Director, Invesco Holding Company Limited; Trustee and Executive Vice President, Tax-Free Investments Trust; 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); 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); Captaris, Inc. (unified messaging provider); and Investment Company Institute
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)	Director, Van Gilder Insurance Company; Board of Governors, Western Golf Association Evans Scholars Foundation and Executive Committee, United States Golf Association
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); Continental Energy Services, LLC (oil and gas pipeline service); Reich & Tang Funds (registered investment company); Annuity and Life Re (Holdings), Ltd. (reinsurance company), and Homeowners of America Holding Corporation/Homeowners of America Insurance Company (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 public and private corporations	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 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 Directorship(s) Held by Trustee
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, Invesco Aim Management Group, Inc., Invesco Aim Advisors, Inc. and Invesco Aim Capital Management, Inc.; Director, Senior Vice President and Secretary, Invesco Aim Distributors, Inc.; Director, Vice President and Secretary, Invesco Aim Investment Services, Inc. and INVESCO Distributors, Inc.; Director and Vice President, INVESCO Funds Group Inc.; Senior Vice President, Chief Legal Officer and Secretary, The AIM Family of Funds®; and Manager, Invesco PowerShares Capital Management LLC Formerly: Director, Vice President and Secretary, Fund Management Company; Vice President, Invesco Aim 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); 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, The AIM Family of Funds® Formerly: Senior Vice President, Invesco Aim Management Group, Inc.; Senior Vice President and Chief Compliance Officer, Invesco Aim Advisors, Inc. and The AIM Family of Funds®; Vice President and Chief Compliance Officer, Invesco Aim Capital Management, Inc. and Invesco Aim Distributors, Inc.; Vice President, Invesco 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, The AIM Family of Funds® Formerly: Director, Senior Vice President, Secretary and General Counsel, Invesco Aim Management Group, Inc. and Invesco Aim Advisors, Inc.; Senior Vice President, Invesco Aim Distributors, Inc.; Director, General Counsel and Vice President, Fund Management Company; Vice President, Invesco Aim Capital Management, Inc. and Invesco Aim Investment Services, Inc.; Senior Vice President, Chief Legal Officer and Secretary, The AIM Family of Funds®; Director and Vice President, INVESCO Distributors, Inc. and Chief Executive Officer and President, INVESCO Funds Group, Inc.	N/A
Sheri Morris — 1964 Vice President, Treasurer and Principal Financial Officer	1999	Vice President, Treasurer and Principal Financial Officer, The AIM Family of Funds®; and Vice President, Invesco Aim Advisors, Inc., Invesco Aim Capital Management, Inc. and Invesco Aim Private Asset Management Inc. Formerly: Assistant Vice President and Assistant Treasurer, The AIM Family of Funds® and Assistant Vice President, Invesco Aim Advisors, Inc., Invesco Aim Capital Management, Inc. and Invesco Aim Private Asset Management, Inc.	N/A
Karen Dunn Kelley — 1960 Vice President	1993	Head of Invesco's World Wide Fixed Income and Cash Management Group; Director of Cash Management and Senior Vice President, Invesco Aim Advisors, Inc. and Invesco Aim Capital Management, Inc; Executive Vice President, Invesco Aim Distributors, Inc.; Senior Vice President, Invesco Aim Management Group, Inc.; Vice President, The AIM Family of Funds® (other than AIM Treasurer's Series Trust and Short-Term Investments Trust); and President and Principal Executive Officer, The AIM Family of Funds® (AIM Treasurer's Series Trust and Short-Term Investments Trust only) Formerly President and Principal Executive Officer, Tax-Free Investments Trust; Director and President, Fund Management Company; Chief Cash Management Officer and Managing Director, Invesco Aim Capital Management, Inc.; and Vice President, Invesco Aim 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, Invesco Aim Advisors, Inc., Invesco Aim Capital Management, Inc., Invesco Aim Distributors, Inc., Invesco Aim Investment Services, Inc., Invesco 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, Invesco Aim Investment Services, Inc.	N/A
Todd L. Spillane — 1958 Chief Compliance Officer	2006	Senior Vice President, Invesco Aim Management Group, Inc.; Senior Vice President and Chief Compliance Officer, Invesco Aim Advisors, Inc. and Invesco Aim Capital Management, Inc.; Chief Compliance Officer, 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, Invesco Aim Distributors, Inc. and Invesco Aim Investment Services, Inc. Formerly: Vice President, Invesco Aim Capital Management, Inc. and Fund Management Company; and Global Head of Product Development, AIG-Global Investment Group, Inc.	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 1.800.959.4246.

Please refer to the Fund's prospectus for information on the Fund's sub-advisors.

Office of the Fund
11 Greenway Plaza
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Houston, TX 77046-1173

Investment Advisor
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Houston, TX 77046-1173

Distributor
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Suite 100
Houston, TX 77046-1173

Auditors
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Houston, TX 77002-5678

Counsel to the Fund
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& Young, LLP
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Philadelphia, PA 19103

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

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, 2008

ALGER

Table Of Contents

THE ALGER AMERICAN FUND

Dear Shareholders,

January 29, 2009

The last year in the markets has been as unreal and fantastic as something out of Lewis Carroll's *Alice's Adventures in Wonderland*. Much like our world today, Wonderland was a sometimes frightening and dangerous place, where nothing made sense and rules changed frequently. It's far too true these days that, as Lewis' protagonist would say, things have gotten curiouser and curiouser. And there are no signs that conditions will become less curious anytime soon. Although investors remain steeped in uncertainty, the situation has already achieved a level of historical significance in that online encyclopedia Wikipedia has an entry for it: "Global Financial Crisis of 2008."

Wikipedia marks the week of September 7, 2008, as the beginning, but we can trace the tumult back to late 2007, when the unraveling of the housing market appeared, at first, to be the bottom. Like a tumble down the rabbit hole, however, there was yet more room to fall. Alice's descent relates to our own. The hole, Lewis writes, "went straight on like a tunnel for some way, and then dipped suddenly down, so suddenly that Alice had not a moment to think about stopping herself before she found herself falling down what seemed to be a very deep well."

Indications that the subprime disaster was not the deepest part of the well appeared in the spring with the collapse of Bear Stearns. A deceptively quiet few months followed, and then in August, perhaps in an early sign of what broad distress was to come, consumer credit dropped for the first time since 1998, declining by $7.9 billion. According to the Federal Reserve, it was the biggest monthly drop in more than half a century.

The Queen's Croquet Ground

By summer's end, the country's major financial institutions appeared as though they had been playing croquet with the Queen of Hearts, successful in her infamous demand, "Off with their heads!" Lehman Brothers was bankrupt, Bank of America had taken over embattled Merrill Lynch, the FDIC seized Washington Mutual — the U.S.'s largest savings and loan — and the Fed approved the multibillion dollar bailouts of Fannie Mae, Freddie Mac, and AIG.

In an effort to put some kind of bandage on the U.S.'s worsening economic wound, Congress passed the controversial $700 billion Emergency Economic Stabilization Act of 2008 in early October. As the month pushed forward, however, we saw more evidence of just how low the markets were capable of going. With investors fixating on the threat of a recession, the markets reflected the uncertainty over whether or not we had hit a bottom; record-breaking drops and rises littered the month. In one five-day period in early October, the Dow Jones Industrial Average[i] lost 1,400 points. The period was topped the very next week during which the Dow traversed 1,600 points, from a high of 9,794 to a low of about 8,197. The S&P 500 Index[ii], swung considerably, too, posting its biggest gain since the 1930s on October 13 before plunging two days later as retailers reported their sharpest sales drop in three years. The tumult didn't end there.

In early November, the U.S. underwent an executive regime change with the election of Barack Obama to the presidency. As we foretold, the election itself had a minimal impact on the economy. Instead, the U.S. — and global — markets for the rest of the month succumbed to their own mayhem. The economies of Germany and Japan were officially in recession (with the U.S. following in early December), an automotive industry rescue was in debate, controversy surrounded the way in which the funds from the financial bailout plan were to be dispersed, and stocks continued to plunge. On November 20, the major indices hit what we now think may have been the bottom: the S&P 500, down 49% for the year, had its lowest close since 1997, and the Dow and NASDAQ[iii] were at 5 1/2–year closing lows. On that day, the Dow was down 50% from its all-time high set in October 2007.

Who Stole the Tarts?

Taking a magnifying glass to the fourth quarter, U.S. GDP declined at an annual rate of 3.8%, the worst quarterly display since 1982. The primary contributor to GDP decline was the squeezing of the American consumer. Americans reigned in their spending after the impact of the government's tax rebates wore off, cutting back on purchases of cars, furniture, household appliances, clothes, and other items. Consumer spending, which typically accounts for two-thirds of economic growth, fell 3.5% in the quarter, after decreasing 3.8% in the third quarter.

Housing starts and permits, a sign of future construction, both plummeted to a record low annual rate in December. Housing starts fell 15.5% and building permits fell 10.7% from the prior month; sales of existing homes were down 3.5% in December compared with the same period a year earlier, according to the National Association of Realtors. The employment scene took a turn for the worse as well. The unemployment rate rose from 6.8% in November to 7.2% in December, a 15-year high; analysts said it could hit 8% or higher in 2009.

However, there were some brighter spots as several measures of U.S. economic performance unexpectedly turned positive in December. Compared to dismal November data, sales of existing homes rose 6.5% in December, reaching an annual rate of about 4.7 million, according to the National Association of Realtors. And the Conference Board's index of leading economic indicators increased 0.3% as the supply of money expanded. December's gain was the first in six months. The Consumer Price Index decline of 0.7% in December was slightly less drastic than November's decline of 1.7%

Exports in the fourth quarter declined 19.7% while imports dropped 15.7%, reflecting less activity with overseas buyers who were dealing with their own economic troubles. One year ago, we could say that the global economy was functioning separately from the U.S. economy: still healthy, still humming. But international markets are now also under pressure. With European recession official and U.S. exports weaker, it has become clear that any stability beyond the U.S. has been seriously diluted. China, however, holds more sway than it has in a long time; it is the largest holder of U.S. Treasuries and its huge trade surplus has helped it accumulate more foreign-currency reserves than any other country.

A Mad Tea Party

Like the Mad Hatter's watch that told only the day of the month and not the time, watching the nearly hour-by-hour destruction of the financial services sector became far too painful. Although the tea party borne from the overconfidence in the credit and housing markets has now become significantly smaller, we may not have seen the end of the chaos in financial services. It has been and continues to be massively reshaped and while some have not survived and others have had opportunities radically altered, there are some that will likely emerge better companies; our analysts are actively searching for those companies — across all sectors.

Through the Looking Glass

Carroll's follow up to *Alice's Adventures in Wonderland — Through the Looking-Glass, and What Alice Found There* — contains one of the greatest nonsensical poems ever written: Jabberwocky, which contains lines such as, "All mimsy were the borogoves,/And the mome raths outgrabe."

Similarly, these are mimsy, nonsensical times. However, we still do not believe that the global financial system is in dire jeopardy. In fact, we could have already hit the bottom in the equity market. And with a bottom comes opportunity. At the moment, stocks remain at their lowest valuations since the early 1980s; comparatively, home values are still above where they were in the 1990s.

The vast concern over whether we have hit the bottom certainly falls in the category of "curiouser." Growth may continue to be depressed in the near future, but we believe there is hope for a gradual recovery in 2009. Historically, the market has found the bottom and begun to rebound six to nine months ahead of an official recovery. Surveys of economists suggest the current recession will last throughout 2009, which, if the stock market follows a historical looking glass, would suggest it would bottom out in mid-2009. This estimate also — and perhaps too nicely — matches the 20-month average duration of bear markets since 1937, putting a similar stake in the ground for the bottom of this bear market at June of 2009. Unfortunately, these are only averages, meant, like records, to be broken. We have already, for example, fallen well below the average bear market decline (again since 1937) of roughly 34% with the S&P 500 decline of 49% that occurred between January and November.

In 2008, high-quality companies with higher expected growth rates — the kinds of companies in which Alger invests — were punished by the market. Now in 2009, our investment firm has entered its 45th year in business. We have weathered many times of frightening uncertainty often coupled with deep bear markets. In each of those periods, Alger investment professionals have remained true, focused, and disciplined in executing upon our investment philosophy and process and on seeking out stock opportunities where others "fold" or "flee." We are confident now that, as in past bear markets, our discipline will allow us to fully participate in the upside of growth stocks when the markets once again reward high-quality, high-growth companies.

Why? At Alger, we think these difficult times favor our style of investing, which seeks out high-growth, high-quality companies. Specifically, by analyzing companies' financials and looking for "high quality," we are looking for companies with strong balance sheets, strong market positions, strong management teams — the ingredients that help any company prosper in good times and endure difficult ones. Further, to focus on "high-growth" companies might seem odd in a period when most companies are finding it difficult to even hold course. But, to this end, our sector analysts focus on identifying companies that — after this recession and over the longer term — we believe will be the market-share gainers, the shareholder-value generators, and the creators of new products and services in their sectors *despite* the recession. While, at present, all companies are focused on cost-cutting and tiptoeing through the madness of this recession, it is never more true than during times of recession that the strongest companies plant the seeds for higher future growth and, we believe, production of superior investment results for their shareholders.

Alice's Adventures in Wonderland was a knowing children's tale, an allegory meant to entertain the youngest generations and help them navigate the absurdities of an adult world. In the end, Alice woke up — a luxury that we, unfortunately, do not have. What we do have are defining principles and processes, expertise, and experience that have carried us through and will continue to enable us to guide our investors to a successful tomorrow. Like Alice in Wonderland, we've been thrust into a bizarre world. But Carroll also wrote *Through the Looking-Glass*, an almost equally as successful sequel to his famous story; now, we are eagerly awaiting the sequel to ours.

Respectfully submitted,

Daniel C. Chung
Chief Investment Officer

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[i] 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.

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

[iii] The Nasdaq Composite Index is a market value-weighted index that measures all domestic and non-U.S.-based securities listed on the Nasdaq stock market.

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

This report and the financial statements contained herein are submitted for the general information of shareholders of the 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 each portfolio which is included in this report for a complete list of portfolio holdings as of December 31, 2008. 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

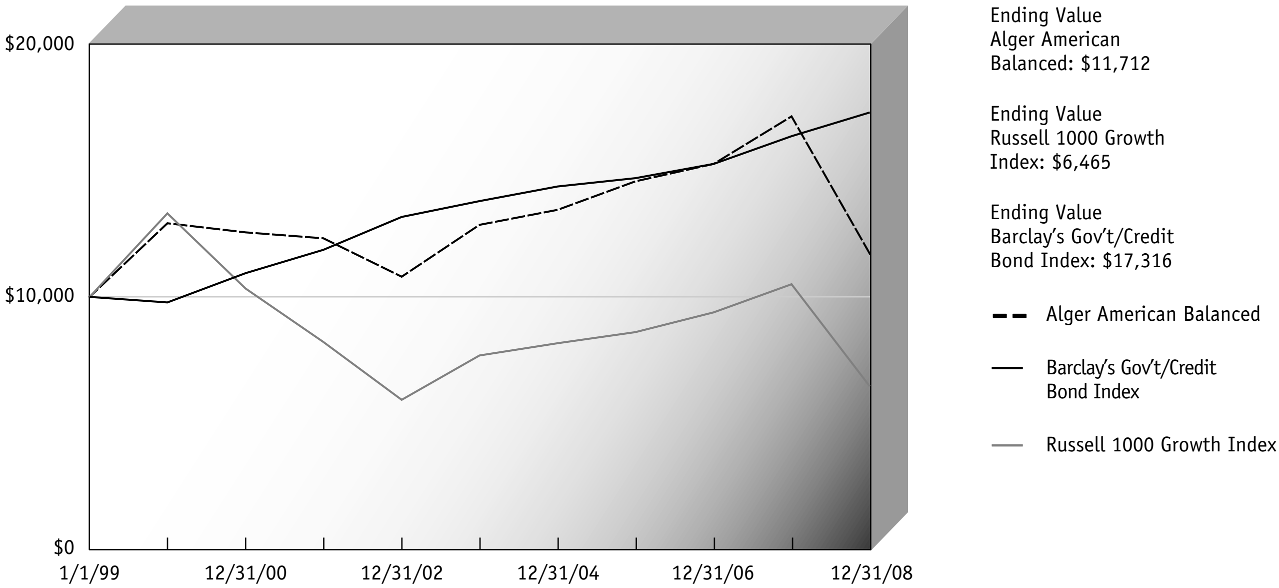
Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political, and economic developments. Stocks of small- and mid-sized companies are subject to greater risk than stocks 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. Portfolios that participate in leveraging, such as the Capital Appreciation Portfolio, are subject to the risk that borrowing money to leverage will exceed the returns for securities purchased or that the securities purchased may actually go down in value; thus, 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, charges, and expenses. The Portfolio's prospectus contains this and other information about the Portfolio, 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 Portfolio's distributor, Fred Alger & Company, Incorporated, 111 Fifth Avenue, New York 10003. Member NYSE Euronext, SIPC. Read the prospectus carefully before investing.

HYPOTHETICAL $10,000 INVESTMENT

— 10 years ended December 31, 2008



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 Barclay's Gov't/Credit Bond Index for the ten years ended December 31, 2008. Figures for the Alger American Balanced Class O shares, the Russell 1000 Growth Index (an unmanaged index of common stocks), and the Barclay's Gov't/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, 2008

AVERAGE ANNUAL TOTAL RETURNS				
	1 YEAR	5 YEARS	10 YEARS	SINCE INCEPTION
Class O (Inception 9/5/89)	(31.76)%	(1.86)%	1.59%	6.51%
Russell 1000 Growth Index	(38.43)%	(3.42)%	(4.27)%	6.17%
Barclay's Gov't/Credit Bond Index	5.71%	4.64%	5.64%	7.22%
Class S (Inception 5/1/02)	(31.90)%	(1.69)%	—	0.01%
Russell 1000 Growth Index	(38.43)%	(3.42)%	—	(1.91)%
Barclay's Gov't/Credit Bond Index	5.71%	4.64%	—	5.59%

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 Balanced Portfolio
Portfolio Summary*
December 31, 2008 *(Unaudited)*

SECTORS	
Equity Securities	
Consumer Discretionary	5.8%
Consumer Staples	10.2
Energy	4.3
Financials	6.2
Health Care	10.0
Industrials	8.4
Information Technology	14.1
Materials	2.0
Telecommunication Services	0.6
Total Equity Securities	61.6%
Corporate Bonds	21.3%
Agency Bonds	9.6
U.S. Treasury Bonds	4.7
Total Bonds	35.6%
Cash and Net Other Assets	2.8%
	100.0%

** Based on net assets for the Portfolio.*

COMMON STOCKS—61.4%	SHARES	VALUE
AEROSPACE & DEFENSE—3.2%		
BE Aerospace Inc.*	26,500	$ 203,785
Boeing Co.	24,000	1,024,080
General Dynamics Corp.	19,200	1,105,728
Lockheed Martin Corp.	18,200	1,530,256
		3,863,849
AIR FREIGHT & LOGISTICS—1.2%		
FedEx Corp.	7,300	468,295
United Parcel Service Inc., Cl. B	18,100	998,396
		1,466,691
APPAREL RETAIL—.4%		
J Crew Group Inc.*	34,100	**416,020**
APPLICATION SOFTWARE—.2%		
Intuit Inc.*	8,600	**204,594**
ASSET MANAGEMENT & CUSTODY BANKS—.8%		
AllianceBernstein Holding LP	9,600	199,584
BlackRock Inc.	3,800	509,770
Invesco Ltd.	17,900	258,476
		967,830
BIOTECHNOLOGY—1.7%		
Biogen Idec Inc.*	3,900	185,757
Genentech Inc.*	9,600	795,936
Genzyme Corp.*	9,000	597,330
Gilead Sciences Inc.*	8,900	455,146
		2,034,169
CABLE & SATELLITE—.7%		
Comcast Corp., Cl. A	15,800	255,170
Scripps Networks Interactive Inc.	25,400	558,800
		813,970
CASINOS & GAMING—.2%		
International Game Technology	19,300	**229,477**
COAL & CONSUMABLE FUELS—.2%		
Peabody Energy Corp.	10,700	**243,425**
COMMUNICATIONS EQUIPMENT—2.2%		
Cisco Systems Inc.*	82,000	1,336,600
Nokia OYJ#	27,800	433,680
QUALCOMM Inc.	8,400	300,972
Research In Motion Ltd.*	11,900	482,902
		2,554,154
COMPUTER & ELECTRONICS RETAIL—.1%		
GameStop Corp., Cl. A*	6,900	**149,454**
COMPUTER HARDWARE—2.3%		
Apple Inc.*	17,400	1,485,090
Hewlett-Packard Co.	34,800	1,262,892
		2,747,982
COMPUTER STORAGE & PERIPHERALS—.8%		
EMC Corp.*	75,100	786,297
NetApp Inc.*	14,400	201,168
		987,465
CONSTRUCTION & ENGINEERING—.4%		
Fluor Corp.	11,100	**498,057**

COMMON STOCKS—(CONT.)	SHARES	VALUE
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—.4%		
Deere & Co.	8,900	$ 341,048
Joy Global Inc.	5,100	116,739
		457,787
CONSUMER ELECTRONICS—.4%		
Sony Corp.#	23,000	**503,010**
DATA PROCESSING & OUTSOURCED SERVICES—.9%		
Alliance Data Systems Corp.*	8,800	409,464
Mastercard Inc.	3,500	500,255
Western Union Co., /The	11,500	164,910
		1,074,629
DIVERSIFIED BANKS—.7%		
Wells Fargo & Co.	26,700	**787,116**
DIVERSIFIED CHEMICALS—.4%		
EI Du Pont de Nemours & Co.	20,600	**521,180**
DRUG RETAIL—1.9%		
CVS/Caremark Corp.	35,800	1,028,892
Walgreen Co.	49,900	1,231,033
		2,259,925
ELECTRICAL COMPONENTS & EQUIPMENT—.2%		
General Cable Corp.*	12,600	**222,894**
FERTILIZERS & AGRICULTURAL CHEMICALS—.4%		
Monsanto Co.	6,900	**485,415**
FOOD RETAIL—.2%		
Whole Foods Market Inc.	23,300	**219,952**
FOOTWEAR—.4%		
Nike Inc., Cl. B	9,400	**479,400**
GOLD—.7%		
Goldcorp Inc.	7,400	233,322
Yamana Gold Inc.	75,000	579,000
		812,322
HEALTH CARE EQUIPMENT—2.2%		
Beckman Coulter Inc.	7,000	307,580
Boston Scientific Corp.*	76,700	593,658
Covidien Ltd.	6,100	221,064
Hologic Inc.*	19,700	257,479
St. Jude Medical Inc.*	19,500	642,720
Zimmer Holdings Inc.*	13,900	561,838
		2,584,339
HEALTH CARE SERVICES—.7%		
Quest Diagnostics Inc.	16,200	**840,942**
HEALTH CARE SUPPLIES—.3%		
Inverness Medical Innovations Inc.*	18,300	**346,053**
HOME ENTERTAINMENT SOFTWARE—1.2%		
Nintendo Co., Ltd.#	20,200	940,085
Take-Two Interactive Software Inc.*	69,300	523,908
		1,463,993
HOMEBUILDING—.4%		
Toll Brothers Inc.*	22,400	**480,032**
HOUSEHOLD PRODUCTS—1.1%		
Procter & Gamble Co.	21,300	**1,316,766**

COMMON STOCKS—(CONT.)	SHARES	VALUE
HYPERMARKETS & SUPER CENTERS—.4%		
Wal-Mart Stores Inc.	7,800	$ **437,268**
INDUSTRIAL CONGLOMERATES—2.1%		
3M Co.	14,600	840,084
General Electric Co.	80,700	1,307,340
McDermott International Inc.*	32,400	320,112
		2,467,536
INDUSTRIAL GASES—.2%		
Praxair Inc.	4,000	**237,440**
INDUSTRIAL MACHINERY—.3%		
ITT Corp.	8,800	**404,712**
INSURANCE BROKERS—.2%		
Willis Group Holdings Ltd.	10,000	**248,800**
INTEGRATED OIL & GAS—2.3%		
ConocoPhillips	11,500	595,700
Exxon Mobil Corp.	16,600	1,325,178
Hess Corp.	7,600	407,664
Petroleo Brasileiro SA#	17,700	433,473
		2,762,015
INTEGRATED TELECOMMUNICATION SERVICES—.6%		
AT&T Inc.	24,300	**692,550**
INTERNET RETAIL—.8%		
Amazon.com Inc.*	5,000	256,400
Expedia Inc.*	28,800	237,312
NetFlix Inc.*	14,000	418,460
		912,172
INTERNET SOFTWARE & SERVICES—2.6%		
eBay Inc.*	75,850	1,058,866
Google Inc., Cl. A*	3,500	1,076,775
IAC/InterActiveCorp.*	38,250	601,672
Yahoo! Inc.*	29,900	364,780
		3,102,093
INVESTMENT BANKING & BROKERAGE—1.4%		
Greenhill & Co., Inc.	7,300	509,321
Lazard Ltd., Cl. A	34,200	1,017,108
Merrill Lynch & Co., Inc.	12,900	150,156
		1,676,585
IT CONSULTING & OTHER SERVICES—.5%		
Cognizant Technology Solutions Corp., Cl. A*	30,500	**550,830**
LEISURE PRODUCTS—.2%		
Gildan Activewear Inc.*	18,700	**219,912**
LIFE SCIENCES TOOLS & SERVICES—.7%		
Covance Inc.*	4,700	216,341
Thermo Fisher Scientific Inc.*	18,000	613,260
		829,601
MANAGED HEALTH CARE—.9%		
Aetna Inc.	10,200	290,700
UnitedHealth Group Inc.	28,800	766,080
		1,056,780
METAL & GLASS CONTAINERS—.3%		
Owens-Illinois Inc.*	12,100	**330,693**

COMMON STOCKS—(CONT.)	SHARES	VALUE
MOVIES & ENTERTAINMENT—1.4%		
DreamWorks Animation SKG Inc.*	14,900	$ 376,374
Regal Entertainment Group	73,100	746,351
Viacom Inc., Cl. B*	30,800	587,048
		1,709,773
OFFICE REITS—.4%		
Digital Realty Trust Inc.	15,300	**502,605**
OIL & GAS DRILLING—.7%		
Transocean Ltd.*	17,483	**826,071**
OIL & GAS EQUIPMENT & SERVICES—.3%		
Cameron International Corp.*	19,400	**397,700**
OIL & GAS EXPLORATION & PRODUCTION—.8%		
Anadarko Petroleum Corp.	5,100	196,605
Chesapeake Energy Corp.	46,200	747,054
		943,659
OTHER DIVERSIFIED FINANCIAL SERVICES—.9%		
Bank of America Corp.	9,000	126,720
JPMorgan Chase & Co.	31,800	1,002,654
		1,129,374
PACKAGED FOODS & MEATS—.9%		
Kraft Foods Inc., Cl. A	37,700	**1,012,245**
PHARMACEUTICALS—3.5%		
Abbott Laboratories	19,200	1,024,704
Johnson & Johnson	18,400	1,100,872
Merck & Co., Inc.	20,700	629,280
Mylan Inc.*	48,500	479,665
Shire PLC#	11,300	506,014
Wyeth	12,300	461,373
		4,201,908
RESEARCH & CONSULTING SERVICES—.5%		
FTI Consulting Inc.*	14,500	**647,860**
RESTAURANTS—.8%		
Cheesecake Factory /The*	31,400	317,140
Starbucks Corp.*	72,900	689,634
		1,006,774
SEMICONDUCTOR EQUIPMENT—.6%		
Kla-Tencor Corp.	8,400	183,036
Lam Research Corp.*	14,900	317,072
Tessera Technologies Inc.*	16,300	193,644
		693,752
SEMICONDUCTORS—.7%		
Intel Corp.	58,200	**853,212**
SOFT DRINKS—3.8%		
Coca-Cola Co., /The	49,300	2,231,811
Hansen Natural Corp.*	11,000	368,830
PepsiCo Inc.	35,200	1,927,904
		4,528,545
SPECIALIZED FINANCE—1.0%		
CME Group Inc.	3,628	755,023
Hong Kong Exchanges and Clearing Ltd.	28,200	270,746
NYSE Euronext	5,900	161,542
		1,187,311
SYSTEMS SOFTWARE—2.3%		
Microsoft Corp.	138,850	**2,699,244**

COMMON STOCKS—(CONT.)	SHARES	VALUE
THRIFTS & MORTGAGE FINANCE—.4%		
New York Community Bancorp Inc.	36,800	$ **440,128**
TOBACCO—2.0%		
Altria Group Inc.	76,100	1,146,066
Philip Morris International Inc.	27,400	1,192,174
		2,338,240
TOTAL COMMON STOCKS		
(Cost $108,677,178)		**73,080,280**
PREFERRED STOCKS—.4%		
OTHER DIVERSIFIED FINANCIAL SERVICES		
JPMorgan Chase & Co., 8.625%, 9/1/13, Pfd.		
(Cost $492,500)	19,700	**496,046**

CORPORATE BONDS—20.4%	PRINCIPAL AMOUNT	
BREWERS—.5%		
SABMiller PLC, 5.70%, 1/15/14 (a)	$ 650,000	**599,928**
CASINOS & GAMING—.1%		
Scientific Games Corp., 7.875%, 6/15/16 (a)	100,000	**81,000**
COMPUTER HARDWARE—.5%		
Hewlett-Packard Co., 6.125%, 3/1/14	600,000	**638,506**
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—.2%		
Caterpillar Financial Services Corp., 6.20%, 9/30/13	225,000	**232,193**
CONSUMER FINANCE—.5%		
American Express Credit Corp., 7.30%, 8/20/13	600,000	**614,752**
ELECTRIC UTILITIES—1.3%		
Florida Power Corp., 5.80%, 9/15/17	600,000	628,069
Exelon Generation Co., LLC, 6.20%, 10/1/17	325,000	279,954
Entergy Gulf States Louisiana LLC, 6.00%, 5/1/18 (a)	700,000	611,148
		1,519,171
HOUSEHOLD PRODUCTS—.1%		
Procter & Gamble Co., 4.60%, 1/15/14	125,000	**131,135**
INDUSTRIAL CONGLOMERATES—.8%		
Ge Capital Commercial Mortgage Corp., 6.59%, 8/11/33	1,000,000	**972,348**
INDUSTRIAL MACHINERY—.5%		
Systems 2001 AT LLC, 6.664%, 9/15/13 (b)	630,432	**624,127**
INTEGRATED OIL & GAS—1.0%		
BP Capital Markets PLC, 5.25%, 11/7/13	600,000	627,029
Marathon Oil Corp., 5.90%, 3/15/18	725,000	606,513
		1,233,542
INTEGRATED TELECOMMUNICATION SERVICES—1.7%		
AT&T Inc., 4.95%, 1/15/13	730,000	734,697
Verizon Communications Inc., 5.25%, 4/15/13	600,000	602,866
Verizon Wireless, 7.375%, 11/15/13 (a)	600,000	633,692
		1,971,255

CORPORATE BONDS—(CONT.)	PRINCIPAL AMOUNT	VALUE
INVESTMENT BANKING & BROKERAGE—3.8%		
Goldman Sachs Group Inc., /The, 3.25%, 6/15/12	$ 600,000	$ 626,503
Goldman Sachs Group Inc., /The, 6.15%, 4/1/18	525,000	505,377
Lazard Group LLC, 6.85%, 6/15/17	600,000	382,500
Morgan Stanley, 2.90%, 12/1/2010	600,000	615,981
Morgan Stanley Capital I, 5.178%, 9/15/42	1,595,000	1,305,658
Morgan Stanley Capital I, 5.514%, 11/12/49	1,400,000	1,097,012
		4,533,031
MANAGED HEALTH CARE—.3%		
Cigna Corp., 5.375%, 3/15/17	500,000	**420,905**
MORTGAGE BACKED SECURITIES—1.1%		
Bear Stearns Commercial Mortgage Securities, 4.888%, 5/14/16 (a)	650,000	650,602
Bear Stearns Commercial Mortgage Securities, 5.064%, 5/14/16 (a)	650,000	651,020
		1,301,622
MOVIES & ENTERTAINMENT—.1%		
Time Warner Cable Inc., 8.25%, 2/14/14	125,000	**126,939**
MULTI-UTILITIES—.7%		
CenterPoint Energy Transition Bond Co., LLC, 4.97%, 8/1/14	655,000	643,169
Virginia Electric and Power Co., 5.10%, 11/30/12	255,000	249,511
		892,680
OIL & GAS EXPLORATION & PRODUCTION—.1%		
PetroHawk Energy Corp., 7.875%, 6/1/15 (a)	150,000	**111,750**
OIL & GAS REFINING & MARKETING—1.0%		
Tesoro Corp., 6.25%, 11/1/12	800,000	556,000
Valero Energy Corp., 6.875%, 4/15/12	600,000	603,815
		1,159,815
OIL & GAS STORAGE & TRANSPORTATION—1.1%		
Inergy LP/Inergy Finance Corp., 8.25%, 3/1/16	653,000	512,605
Enterprise Products Operating LLC, 8.375%, 8/1/66	1,350,000	743,348
		1,255,953
OTHER DIVERSIFIED FINANCIAL SERVICES—1.7%		
Bank of America Corp., 8.00%, 1/30/18	350,000	252,112
Bank of America Corp., 8.125%, 5/15/18	947,000	709,540
Citigroup Inc., 8.40%, 4/30/18	1,150,000	760,771
JPMorgan Chase & Co., 7.90%, 4/30/18	350,000	291,909
		2,014,332
PACKAGED FOODS & MEATS—.1%		
Kraft Foods Inc., 6.75%, 2/19/14	125,000	**129,860**
PROPERTY & CASUALTY INSURANCE—.5%		
Liberty Mutual Group Inc., 7.80%, 3/15/37 (a)	1,350,000	**606,706**
RAILROADS—.3%		
Norfolk Southern Corp., 5.75%, 4/1/18	375,000	**365,537**
RESTAURANTS—.5%		
Darden Restaurants Inc., 5.625%, 10/15/12	650,000	**562,099**
SOFT DRINKS—1.0%		
Dr. Pepper Snapple Group Inc., 6.82%, 5/1/18 (a)	615,000	607,638
PepsiCo Inc., 4.65%, 2/15/13	580,000	596,899
		1,204,537
WIRELESS TELECOMMUNICATION SERVICES—.9%		
American Tower Trust, 5.9568%, 4/15/37 (a)	1,500,000	**1,027,383**
TOTAL CORPORATE BONDS (Cost $28,477,686)		**24,331,106**

CONVERTIBLE CORPORATE BONDS—.7%	PRINCIPAL AMOUNT	VALUE
OIL & GAS DRILLING—.2%		
Transocean Ltd., 1.50%, 12/15/37	$ 300,000	$ **232,500**
SPECIALIZED REITS—.5%		
Rayonier TRS Holdings Inc., 3.75%, 10/15/12 (a)	650,000	**583,375**
TOTAL CONVERTIBLE CORPORATE BONDS		
(Cost $951,909)		**815,875**
U.S. GOVERNMENT & AGENCY OBLIGATIONS—14.3%		
Federal National Mortgage Association,		
5.00%, 4/1/18	856,577	887,082
5.50%, 12/15/20	945,700	967,845
5.50%, 10/25/20	1,350,000	1,385,053
6.00%, 4/25/35	1,800,000	1,836,910
Federal Home Loan Banks,		
5.375%, 6/8/12	200,000	222,929
Federal Home Loan Mortgage Corporation,		
5.50%, 7/15/10	515,349	518,550
5.50%, 1/15/15	1,256,743	1,303,285
6.00%, 8/15/29	1,880,000	1,941,826
6.00%, 3/15/36	1,134,732	1,133,669
Government National Mortgage Association,		
5.00%, 5/16/29	1,180,753	1,193,824
U.S. Treasury Bonds,		
5.25%, 11/15/28	1,000,000	1,320,625
U.S. Treasury Notes,		
5.00%, 8/15/11	1,385,000	1,542,436
4.25%, 11/15/14	900,000	1,041,539
4.50%, 2/15/16	640,000	753,601
4.75%, 8/15/17	640,000	765,400
3.50%, 2/15/18	150,000	166,078
TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS		
(Cost $15,939,348)		**16,980,652**
SHORT-TERM INVESTMENTS—2.6%		
TIME DEPOSITS		
JP Morgan Chase London, .06%, 1/2/09		
(Cost $3,057,543)	3,057,543	**3,057,543**
Total Investments		
(Cost $157,596,164) (c)	99.8%	118,761,502
Other Assets in Excess of Liabilities	0.2	195,945
NET ASSETS	**100.0%**	**$118,957,447**

* *Non-income producing securities.*
\# *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 5.2% of the net assets of the fund.*
(b) *Security may be sold prior to maturity only to qualified institutional buyers. Security was acquired on February 9, 2005 for a cost of $666,049.*
(c) *At December 31,2008, the net unrealized depreciation on investments, based on cost for federal income tax purposes of $157,889,882 amounted to $39,128,380 which consisted of aggregate gross unrealized appreciation of $2,433,160 and aggregate gross unrealized depreciation of $41,561,540.*

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THE ALGER AMERICAN FUND
Alger American Balanced Portfolio
Statement of Assets and Liabilities *December 31, 2008*

ASSETS:	
Investments in securities, at value (identified cost)* see accompanying schedule of investments	$ 118,761,502
Receivable for investment securities sold	3,684,437
Receivable for shares of beneficial interest sold	16,798
Dividends and interest receivable	615,578
Prepaid expenses	25,192
Total Assets	123,103,507
LIABILITIES:	
Payable for investment securities purchased	3,876,656
Payable for shares of beneficial interest redeemed	147,451
Accrued investment advisory fees	71,302
Accrued transfer agent fees	994
Accrued distribution fees	44
Accrued administrative fees	2,927
Accrued expenses	46,686
Total Liabilities	4,146,060
NET ASSETS	**$118,957,447**
Net Assets Consist of:	
Paid in capital	$ 170,994,751
Undistributed net investment income(accumulated loss)	3,875,051
Undistributed net realized gain (accumulated loss)	(17,077,693)
Net unrealized appreciation (depreciation) of investments	(38,834,662)
NET ASSETS	**$118,957,447**
Class O — Net Asset Value Per Share	**$8.64**
Class S — Net Asset Value Per Share	**$9.43**
SHARES OF BENEFICIIAL INTEREST OUTSTANDING—NOTE 6	
Class O	**13,741,453**
Class S	**21,083**
*Identified Cost	$ 157,596,164

See Notes to Financial Statements.

THE ALGER AMERICAN FUNDS
Alger American Balanced Portfolio
Statement of Operations

For the year ended December 31, 2008

INCOME:	
Dividends (net of foreign withholding taxes*)	$ 1,707,739
Interest	3,620,997
Total Income	5,328,736
EXPENSES:	
Advisory fees—Note 3(a)	1,259,486
Distribution fees—Note 3(b)	
Class S	656
Administrative fees—Note 3(a)	54,179
Interest expense—Note 5	4,133
Custodian fees	34,004
Fund accounting fees	18,496
Transfer agent fees—Note 3(d)	13,136
Printing fees	54,710
Professional fees	26,086
Trustees' fees—Note 3(e)	13,037
Miscellaneous fees	28,836
Total Expenses	1,506,759
Less, expense reimbursements Note 3(a)	(70,958)
Net Expenses	1,435,801
NET INVESTMENT INCOME	3,892,935
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS:	
Net realized loss on investments	(16,563,317)
Net realized gain on foreign currency transactions	55,107
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	(51,181,425)
Net realized and unrealized loss on investments and foreign currency	(67,689,635)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$(63,796,700)**
* Foreign withholding taxes	$ 23,821

See Notes to Financial Statements.

THE ALGER AMERICAN FUNDS
Alger American Balanced Portfolio
Statement of Changes in Net Assets
For the year ended December 31, 2008

Net investment income	$ 3,892,935
Net realized loss on investments and foreign currency transactions	(16,508,210)
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	(51,181,425)
Net decrease in net assets resulting from operations	(63,796,700)
Dividends and distributions to shareholders from:	
Net investment income	
Class O	(4,659,958)
Net realized gains	
Class O	(22,191,368)
Class S	(30,168)
Total dividends and distributions to shareholders	(26,881,494)
Decrease from shares of beneficial interest transactions:	
Class O—Note 6	(14,784,128)
Class S—Note 6	(32,877)
Net decrease from shares of beneficial interest transactions	(14,817,005)
Total decrease	(105,495,199)
Net Assets:	
Beginning of year	224,452,646
END OF YEAR	**$118,957,447**
Undistributed net investment income (accumulated loss)	$ 3,875,051

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)
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—Note 6	(39,581,578)
Class S—Note 6	(32,932,549)
Net decrease from shares of beneficial interest transactions	(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

See Notes to Financial Statements.

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

	CLASS O				
	Year ended 12/31/08	Year ended 12/31/07	Year ended 12/31/06	Year ended 12/31/05	Year ended 12/31/04
INCOME FROM INVESTMENT OPERATIONS					
Net asset value, beginning of year	$ 14.61	$ 14.11	$ 14.44	$ 13.55	$ 13.16
Net investment income	0.26(i)	0.26(i)	0.24(i)	0.20	0.19
Net realized and unrealized gain on investments	(4.35)	1.41	0.39	0.92	0.40
Total from investment operations	(4.09)	1.67	0.63	1.12	0.59
Dividends from net investment income	(0.33)	(0.31)	(0.22)	(0.23)	(0.20)
Distributions from net realized gains	(1.55)	(0.86)	(0.74)	—	—
Total distributions	(1.88)	(1.17)	(0.96)	(0.23)	(0.20)
Net asset value, end of year	$ 8.64	$ 14.61	$ 14.11	$ 14.44	$ 13.55
Total return	(31.76)%	12.37%	4.72%	8.42%	4.57%
RATIOS/SUPPLEMENTAL DATA					
Net assets, end of year (000's omitted)	$118,759	$224,090	$254,579	$292,412	$309,744
Ratio of expenses to average net assets	0.81%(ii)	0.80%(ii)	0.86%	0.81%	0.87%
Ratios of net investment income (loss) to average net assets	2.19%	1.79%	1.71%	1.29%	1.41%
Portfolio turnover rate	76.32%	103.77%	288.73%	218.77%	177.66%

(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 12/31/08	Year ended 12/31/07	Year ended 12/31/06	Year ended 12/31/05	Year ended 12/31/04
$ 15.46	$ 14.30	$ 14.61	$ 13.71	$ 13.34
0.24(i)	0.19(i)	0.20(i)	0.14	0.17
(4.72)	1.83	0.40	0.96	0.39
(4.48)	2.02	0.60	1.10	0.56
—	—	(0.17)	(0.20)	(0.19)
(1.55)	(0.86)	(0.74)	—	—
(1.55)	(0.86)	(0.91)	(0.20)	(0.19)
$ 9.43	$ 15.46	$ 14.30	$ 14.61	$ 13.71
(31.90)%	14.49%	4.46%	8.15%	4.27%
$ 198	$ 363	$31,528	$43,583	$44,435
1.06%(ii)	1.08%(ii)	1.11%	1.06%	1.12%
1.96%	1.48%	1.43%	1.05%	1.20%
76.32%	103.77%	288.73%	218.77%	177.66%

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 seven series of shares of beneficial interest: American LargeCap Growth Portfolio (formerly known as American Growth Portfolio), American SmallCap Growth Portfolio (formerly known as American Small Capitalization Portfolio), American Income and Growth Portfolio, American Balanced Portfolio, American MidCap Growth Portfolio, American Capital Appreciation Portfolio (formerly known as American Leveraged AllCap Growth Portfolio) and American SmallCap and MidCap Growth 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.

Effective January 1, 2008, the Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). In accordance with FAS 157, fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability and may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Fund. Unobservable inputs are inputs that reflect the Fund's own assumptions based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For example, money market securities are valued using amortized cost, in accordance with rules under the Investment Company Act of 1940 (the "1940 Act"). Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities are reflected as Level 2.

The Fund's valuation techniques are consistent with the market approach whereby prices and other relevant information generated by market transactions involving identical or comparable assets are used to measure fair value.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments carried at fair value:

		FAIR VALUE MEASUREMENTS		
DESCRIPTION	**PORTFOLIO TOTAL**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**
Trading securities	$ 118,761,502	$ 76,363,125	$ 42,398,377	$ —
Total	**$118,761,502**	**$76,363,125**	**$42,398,377**	—

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
	Trading Securities
Opening balance at December 31, 2007	$ 2,650,086
Net realized and unrealized gain (loss) on investments, foreign currency and options	(1,224,469)
Purchases, issuances, and settlements	(398,234)
Transfers in and/or out of Level 3	(1,027,383)
Closing balance at December 31, 2008	$ —
The amount of net realized and unrealized gain (loss) on investments, foreign currency and options for the period attributable to change in unrealized appreciation (depreciation) relating to investments still held at December 31, 2008	**$ —**

(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 Statement of Operations.

(d) 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.

(e) Lending of Portfolio Securities: The Portfolio may lends its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets. The Portfolio earns fees on the securities loaned. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash, letters of credit or U.S. Government securities that are maintained in an amount equal to at least 100 percent of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio and any required additional collateral is delivered to the Portfolio on the next business day. There were no securities on loan during the year ended December 31, 2008.

(f) 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, realized gains from redemptions in kind, if any, and reclassification of distributions. The reclassifications have no impact on the net asset values of the Portfolio and are designed to present the Portfolio's capital accounts on a tax basis.

(g) 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.

(h) 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.

(i) 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.

(j) 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 through March 16, 2008	Administration Fee Effective March 17, 2008
.710%	.04%	.0275%

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 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, 2008, the Portfolio paid the Distributor $115,252, in connection with securities transactions.

(d) Shareholder Administrative Fees: The Fund has entered into a shareholder administrative service agreement with Alger Management to compensate Alger Management on a per account basis for its liaison and administrative oversight of Boston Financial Data Services, Inc. ("BFDS"), the transfer agent for the Fund and other related services. During the year ended December 31, 2008, the Portfolio incurred fees of $72, for these services provided by Alger Management 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 and the Distributor. 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 U.S. Government securities and short-term securities, for the year ended December 31, 2008, were $134,077,208 and $166,845,701, respectively.

NOTE 5 — Lines of Credit:

The Fund participated in $50 million committed lines of credits with other mutual funds managed by Alger Management through March 14, 2008. All borrowings had variable interest rates and were payable on demand.

Effective March 17, 2008, the Portfolio borrowed from its custodian on a uncommitted basis. For the year ended December 31, 2008, the Portfolio had the following borrowings:

AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
$34,044	3.50%

NOTE 6 — Share Capital:

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

During the year ended December 31, 2008, transactions of shares of beneficial interest were as follows:

	SHARES	AMOUNT
Class O:		
Shares sold	719,749	$ 8,700,463
Dividends reinvested	2,204,542	26,851,326
Shares redeemed	(4,521,385)	(50,335,917)
Net decrease	**(1,597,094)**	**$(14,784,128)**
Class S:		
Shares sold	5,905	$ 86,175
Dividends reinvested	2,268	30,168
Shares redeemed	(10,551)	(149,220)
Net decrease	**(2,378)**	**$ (32,877)**

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

	SHARES	AMOUNT
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)**

NOTE 7 — Tax Character of Distributions to Shareholders:

The tax character of distributions paid during the years ended December 31, 2008 and December 31, 2007 were as follows:

	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007
Distributions paid from:		
Ordinary Income	$ 24,371,251	$ 18,216,201
Long-Term capital gains	2,510,243	1,378,890
Total distributions paid	**$26,881,494**	**$19,595,091**

As of December 31, 2008, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	$ 3,921,626
Undistributed long-term gain	—
Unrealized appreciation (depreciation)	(39,128,380)

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, the tax treatment of premium/discount on debt securities, realization of unrealized appreciation of Passive Foreign Investment Companies, return of capital from Real Estate Investment Trust investments and investments in Partnerships.

At December 31, 2008, 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
2016
$5,024,513

Net capital losses incurred after October 31 and within the taxable year are deemed to arise on the first business day of the fund's next taxable year. For the period ended December 31, 2008, the amount of deferral for the Portfolio was $11,806,033.

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 Fund that the settlement has not adversely affected the operations of Alger Management, Alger Inc. or their affiliates, or adversely affected their ability to continue to provide services to the Fund.

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 (which was later amended a second time) 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 "1940 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 Fund, 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.

The class and derivative suits have been settled in principle, but such settlement is subject to court approval.

Note 9 — Recent Accounting Pronouncements

On March 19, 2008, the FASB released Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("FAS 161"). FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The application of FAS 161 is required for fiscal years and interim periods beginning after November 15, 2008. At this time, management is evaluating the implications of FAS 161 and believes the adoption of FAS 161 will have no material impact on the Fund's financial statements.

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 constituting The Alger American Fund) (the "Fund") as of December 31, 2008, and the related statement 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 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, 2008, 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, 2008, 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 U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 10, 2009

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, 2008 and ending December 31, 2008.

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, 2008	Ending Account Value December 31, 2008	Expenses Paid During the Period July 1, 2008 to December 31, 2008 (b)	Ratio of Expenses to Average Net Assets For the Six Months Ended December 31, 2008 (c)
Class O	Actual	$1,000.00	$ 748.70	$3.56	0.81%
	Hypothetical	1,000.00	1,021.06	4.12	0.81
Class S	Actual	1,000.00	748.40	4.66	1.06
	Hypothetical	1,000.00	1,019.81	5.38	1.06

(a) 5% annual return before expenses.
(b) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).
(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 Alger Funds II, The Alger Funds, The Alger Institutional Funds, The Alger 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 (47)	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. (55)	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 (63)	Associate Vice President For Principal Gifts, and Senior Associate Dean of Development, Harvard University. Formerly Deputy Director of the Harvard College Fund.	2007	27
Lester L. Colbert, Jr. (74)	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 (76)	Attorney; Private investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1988	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)			
David Rosenberg (46)	Associate Professor of Law since January 2006 (Assistant Professor 2000-2005), Zicklin School of Business, Baruch College, City University of New York.	2007	27
Nathan E. Saint-Amand, M.D. (70)	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 (46) President	President since September 2003, Chief Executive Officer since 2007 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 (44) 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 (43) 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

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)			
Lisa A. Moss (43) 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
Barry J. Mullen (55) 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 (53) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President	2007	N/A
Sergio M. Pavone (47) 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 9, 2008, 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 Portfolios 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 by Alger Management 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 that, according to an analysis provided by Callan, the characteristics of each equity Portfolio had been typical of a fund that holds itself out to investors as growth-oriented. They 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 Fund 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 reviewed each Portfolio's returns (other than those of the SmallCap and MidCap Portfolio, which had been operating for one quarter only) for the year-to-date (at 6/30/08), last-quarter, and 1-, 3-, 5-, and 10-year periods to the extent available (and its year-by-year returns) and compared them with benchmark and peer-group data for the same periods. They noted that the performance of each of the equity Portfolios, which had generally been satisfactory in recent periods (or longer), was disappointing for the year to date. Noting that the 2008 market environment for domestic stocks in general and for "growth" stocks in particular had thus far been challenging in 2008, the Trustees discussed the Portfolios' recent performance with Alger Management and the performance prospects for the remainder of the year and beyond. The Trustees noted that the performance of the Balanced Portfolio, which had been improving relative to its peers and benchmarks, had lagged by both measures for the year to date but had shown marked improvement during the quarter ended June 30, 2008. As presented in the Callan materials, the performance of the Income & Growth Portfolio lagged that of its peers and benchmark by particularly wide margins during 2007 and 2008, negatively affecting the 3- and 5-year cumulative returns. The Trustees discussed with Alger Management the Portfolio's performance and Alger Management's plans for improvement.

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, 2008 . 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 most fees and expense ratios were near or below the median, the fees of the Balanced Portfolio and the Capital Appreciation Portfolio and the Class-S expense ratios of all Portfolios except the Income & Growth Portfolio 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 the equity Portfolios' brokerage transactions, reports on which are regularly supplied to the Trustees at their quarterly meetings and summaries of which, listing commissions by Portfolio through June 30, 2008 and December 31, 2007, had been included in the materials supplied prior to the meeting. 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 Management also 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 was generally satisfied with the performance of each of the Portfolios on a relatively long-term basis, but determined to monitor the progress of Alger Management's steps to improve the performance of the equity Portfolios and the Income & Growth Portfolio by comparison with that of the first half of 2008 (as well as 2007 in the case of the Income & Growth Portfolio).
>
> 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 Portfolio also files its 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 Capital Appreciation 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, 2008

ALGER

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THE ALGER AMERICAN FUND

Dear Shareholders,

January 29, 2009

The last year in the markets has been as unreal and fantastic as something out of Lewis Carroll's *Alice's Adventures in Wonderland*. Much like our world today, Wonderland was a sometimes frightening and dangerous place, where nothing made sense and rules changed frequently. It's far too true these days that, as Lewis' protagonist would say, things have gotten curiouser and curiouser. And there are no signs that conditions will become less curious anytime soon. Although investors remain steeped in uncertainty, the situation has already achieved a level of historical significance in that online encyclopedia Wikipedia has an entry for it: "Global Financial Crisis of 2008."

Wikipedia marks the week of September 7, 2008, as the beginning, but we can trace the tumult back to late 2007, when the unraveling of the housing market appeared, at first, to be the bottom. Like a tumble down the rabbit hole, however, there was yet more room to fall. Alice's descent relates to our own. The hole, Lewis writes, "went straight on like a tunnel for some way, and then dipped suddenly down, so suddenly that Alice had not a moment to think about stopping herself before she found herself falling down what seemed to be a very deep well."

Indications that the subprime disaster was not the deepest part of the well appeared in the spring with the collapse of Bear Stearns. A deceptively quiet few months followed, and then in August, perhaps in an early sign of what broad distress was to come, consumer credit dropped for the first time since 1998, declining by $7.9 billion. According to the Federal Reserve, it was the biggest monthly drop in more than half a century.

The Queen's Croquet Ground

By summer's end, the country's major financial institutions appeared as though they had been playing croquet with the Queen of Hearts, successful in her infamous demand, "Off with their heads!" Lehman Brothers was bankrupt, Bank of America had taken over embattled Merrill Lynch, the FDIC seized Washington Mutual — the U.S.'s largest savings and loan — and the Fed approved the multibillion dollar bailouts of Fannie Mae, Freddie Mac, and AIG.

In an effort to put some kind of bandage on the U.S.'s worsening economic wound, Congress passed the controversial $700 billion Emergency Economic Stabilization Act of 2008 in early October. As the month pushed forward, however, we saw more evidence of just how low the markets were capable of going. With investors fixating on the threat of a recession, the markets reflected the uncertainty over whether or not we had hit a bottom; record-breaking drops and rises littered the month. In one five-day period in early October, the Dow Jones Industrial Average[i] lost 1,400 points. The period was topped the very next week during which the Dow traversed 1,600 points, from a high of 9,794 to a low of about 8,197. The S&P 500 Index[ii], swung considerably, too, posting its biggest gain since the 1930s on October 13 before plunging two days later as retailers reported their sharpest sales drop in three years. The tumult didn't end there.

In early November, the U.S. underwent an executive regime change with the election of Barack Obama to the presidency. As we foretold, the election itself had a minimal impact on the economy. Instead, the U.S. — and global — markets for the rest of the month succumbed to their own mayhem. The economies of Germany and Japan were officially in recession (with the U.S. following in early December), an automotive industry rescue was in debate, controversy surrounded the way in which the funds from the financial bailout plan were to be dispersed, and stocks continued to plunge. On November 20, the major indices hit what we now think may have been the bottom: the S&P 500, down 49% for the year, had its lowest close since 1997, and the Dow and NASDAQ[iii] were at 5 1/2–year closing lows. On that day, the Dow was down 50% from its all-time high set in October 2007.

Who Stole the Tarts?

Taking a magnifying glass to the fourth quarter, U.S. GDP declined at an annual rate of 3.8%, the worst quarterly display since 1982. The primary contributor to GDP decline was the squeezing of the American consumer. Americans reigned in their spending after the impact of the government's tax rebates wore off, cutting back on purchases of cars, furniture, household appliances, clothes, and other items. Consumer spending, which typically accounts for two-thirds of economic growth, fell 3.5% in the quarter, after decreasing 3.8% in the third quarter.

Housing starts and permits, a sign of future construction, both plummeted to a record low annual rate in December. Housing starts fell 15.5% and building permits fell 10.7% from the prior month; sales of existing homes were down 3.5% in December compared with the same period a year earlier, according to the National Association of Realtors. The employment scene took a turn for the worse as well. The unemployment rate rose from 6.8% in November to 7.2% in December, a 15-year high; analysts said it could hit 8% or higher in 2009.

However, there were some brighter spots as several measures of U.S. economic performance unexpectedly turned positive in December. Compared to dismal November data, sales of existing homes rose 6.5% in December, reaching an annual rate of about 4.7 million, according to the National Association of Realtors. And the Conference Board's index of leading economic indicators increased 0.3% as the supply of money expanded. December's gain was the first in six months. The Consumer Price Index decline of 0.7% in December was slightly less drastic than November's decline of 1.7%

Exports in the fourth quarter declined 19.7% while imports dropped 15.7%, reflecting less activity with overseas buyers who were dealing with their own economic troubles. One year ago, we could say that the global economy was functioning separately from the U.S. economy: still healthy, still humming. But international markets are now also under pressure. With European recession official and U.S. exports weaker, it has become clear that any stability beyond the U.S. has been seriously diluted. China, however, holds more sway than it has in a long time; it is the largest holder of U.S. Treasuries and its huge trade surplus has helped it accumulate more foreign-currency reserves than any other country.

A Mad Tea Party

Like the Mad Hatter's watch that told only the day of the month and not the time, watching the nearly hour-by-hour destruction of the financial services sector became far too painful. Although the tea party borne from the overconfidence in the credit and housing markets has now become significantly smaller, we may not have seen the end of the chaos in financial services. It has been and continues to be massively reshaped and while some have not survived and others have had opportunities radically altered, there are some that will likely emerge better companies; our analysts are actively searching for those companies — across all sectors.

Through the Looking Glass

Carroll's follow up to *Alice's Adventures in Wonderland — Through the Looking-Glass, and What Alice Found There* — contains one of the greatest nonsensical poems ever written: Jabberwocky, which contains lines such as, "All mimsy were the borogoves,/And the mome raths outgrabe."

Similarly, these are mimsy, nonsensical times. However, we still do not believe that the global financial system is in dire jeopardy. In fact, we could have already hit the bottom in the equity market. And with a bottom comes opportunity. At the moment, stocks remain at their lowest valuations since the early 1980s; comparatively, home values are still above where they were in the 1990s.

The vast concern over whether we have hit the bottom certainly falls in the category of "curiouser." Growth may continue to be depressed in the near future, but we believe there is hope for a gradual recovery in 2009. Historically, the market has found the bottom and begun to rebound six to nine months ahead of an official recovery. Surveys of economists suggest the current recession will last throughout 2009, which, if the stock market follows a historical looking glass, would suggest it would bottom out in mid-2009. This estimate also — and perhaps too nicely — matches the 20-month average duration of bear markets since 1937, putting a similar stake in the ground for the bottom of this bear market at June of 2009. Unfortunately, these are only averages, meant, like records, to be broken. We have already, for example, fallen well below the average bear market decline (again since 1937) of roughly 34% with the S&P 500 decline of 49% that occurred between January and November.

In 2008, high-quality companies with higher expected growth rates — the kinds of companies in which Alger invests — were punished by the market. Now in 2009, our investment firm has entered its 45th year in business. We have weathered many times of frightening uncertainty often coupled with deep bear markets. In each of those periods, Alger investment professionals have remained true, focused, and disciplined in executing upon our investment philosophy and process and on seeking out stock opportunities where others "fold" or "flee." We are confident now that, as in past bear markets, our discipline will allow us to fully participate in the upside of growth stocks when the markets once again reward high-quality, high-growth companies.

Why? At Alger, we think these difficult times favor our style of investing, which seeks out high-growth, high-quality companies. Specifically, by analyzing companies' financials and looking for "high quality," we are looking for companies with strong balance sheets, strong market positions, strong management teams — the ingredients that help any company prosper in good times and endure difficult ones. Further, to focus on "high-growth" companies might seem odd in a period when most companies are finding it difficult to even hold course. But, to this end, our sector analysts focus on identifying companies that — after this recession and over the longer term — we believe will be the market-share gainers, the shareholder-value generators, and the creators of new products and services in their sectors *despite* the recession. While, at present, all companies are focused on cost-cutting and tiptoeing through the madness of this recession, it is never more true than during times of recession that the strongest companies plant the seeds for higher future growth and, we believe, production of superior investment results for their shareholders.

Alice's Adventures in Wonderland was a knowing children's tale, an allegory meant to entertain the youngest generations and help them navigate the absurdities of an adult world. In the end, Alice woke up — a luxury that we, unfortunately, do not have. What we do have are defining principles and processes, expertise, and experience that have carried us through and will continue to enable us to guide our investors to a successful tomorrow. Like Alice in Wonderland, we've been thrust into a bizarre world. But Carroll also wrote *Through the Looking-Glass*, an almost equally as successful sequel to his famous story; now, we are eagerly awaiting the sequel to ours.

Respectfully submitted,

Daniel C. Chung
Chief Investment Officer

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[i] 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.

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

[iii] The Nasdaq Composite Index is a market value-weighted index that measures all domestic and non-U.S.-based securities listed on the Nasdaq stock market.

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

This report and the financial statements contained herein are submitted for the general information of shareholders of the 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 each portfolio which is included in this report for a complete list of portfolio holdings as of December 31, 2008. 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

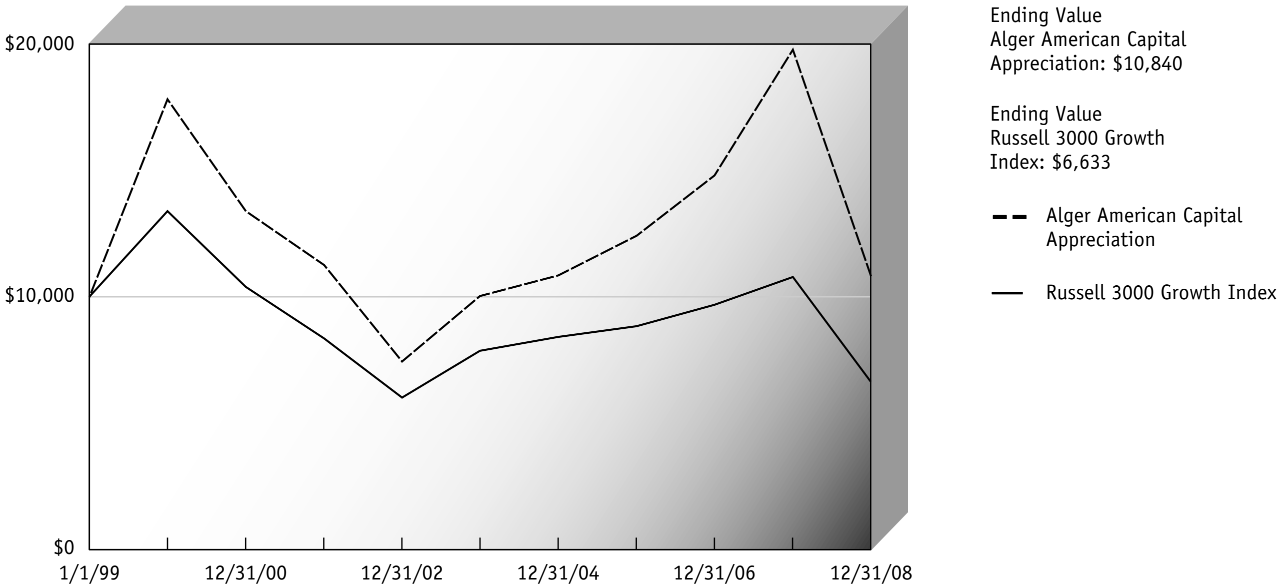
Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political, and economic developments. Stocks of small- and mid-sized companies are subject to greater risk than stocks 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. Portfolios that participate in leveraging, such as the Capital Appreciation Portfolio, are subject to the risk that borrowing money to leverage will exceed the returns for securities purchased or that the securities purchased may actually go down in value; thus, 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, charges, and expenses. The Portfolio's prospectus contains this and other information about the Portfolio, 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 Portfolio's distributor, Fred Alger & Company, Incorporated, 111 Fifth Avenue, New York 10003. Member NYSE Euronext, SIPC. Read the prospectus carefully before investing.

HYPOTHETICAL $10,000 INVESTMENT

— 10 years ended December 31, 2008



The chart above illustrates the growth in value of a hypothetical $10,000 investment made in Alger American Capital Appreciation Class O shares and the Russell 3000 Growth Index for the ten years ended December 31, 2008. Figures for the Alger American Capital Appreciation Class O shares and the Russell 3000 Growth Index (an unmanaged index of common stocks), include reinvestment of dividends. Performance for Alger American Capital Appreciation Class S shares will vary from the results shown above due to differences in expenses that class bears.

PERFORMANCE COMPARISON THROUGH DECEMBER 31, 2008

AVERAGE ANNUAL TOTAL RETURNS	1 YEAR	5 YEARS	10 YEARS	SINCE INCEPTION
CLASS O (INCEPTION 1/25/95)	(45.13)%	1.59%	0.81%	10.45%
Russell 3000 Growth Index	(38.45)%	(3.34)%	(4.02)%	4.69%
CLASS S (INCEPTION 5/1/02)	(45.28)%	1.32%	—	0.72%
Russell 3000 Growth Index	(38.45)%	(3.34)%	—	(1.82)%

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 Capital Appreciation Portfolio
Portfolio Summary*
December 31, 2008 *(Unaudited)*

SECTORS	
Consumer Discretionary	4.8%
Consumer Staples	14.5
Energy	7.1
Financials	5.0
Health Care	18.9
Industrials	7.8
Information Technology	31.3
Materials	2.9
Telecommunication Services	0.5
Utilities	0.7
Cash and Net Other Assets	6.5
	100.0%

** Based on net assets for the Portfolio.*

Schedule of Investments *December 31, 2008*

COMMON STOCKS—93.0%	SHARES	VALUE
AEROSPACE & DEFENSE—5.2%		
BE Aerospace Inc.*	95,000	$ 730,550
General Dynamics Corp.	29,477	1,697,580
Lockheed Martin Corp.	89,400	7,516,752
		9,944,882
AIR FREIGHT & LOGISTICS—.3%		
United Parcel Service Inc., Cl. B	10,100	**557,116**
APPLICATION SOFTWARE—2.5%		
Autodesk Inc.*	55,100	1,082,715
Net 1 UEPS Technologies Inc.*	36,350	497,995
Solera Holdings Inc.*	73,800	1,778,580
Synopsys Inc.*	74,800	1,385,296
		4,744,586
ASSET MANAGEMENT & CUSTODY BANKS—1.5%		
AllianceBernstein Holding LP	39,700	825,363
Invesco Ltd.	138,100	1,994,164
		2,819,527
BIOTECHNOLOGY—6.0%		
Alexion Pharmaceuticals Inc.*	35,200	1,273,888
Biogen Idec Inc.*	30,500	1,452,715
Celgene Corp.*	16,500	912,120
Cephalon Inc.*	28,900	2,226,456
Genentech Inc.*	35,700	2,959,887
Genzyme Corp.*	19,000	1,261,030
United Therapeutics Corp.*	23,281	1,456,227
		11,542,323
CABLE & SATELLITE—.7%		
Comcast Corp., Cl. A	89,900	**1,451,885**
COMMUNICATIONS EQUIPMENT—3.7%		
Ciena Corp.*	81,100	543,370
Cisco Systems Inc.*	89,000	1,450,700
Nice Systems Ltd.*#	51,200	1,150,464
QUALCOMM Inc.	71,600	2,565,428
Research In Motion Ltd.*	18,400	746,672
Sonus Networks Inc.*	429,100	677,978
		7,134,612
COMPUTER HARDWARE—1.7%		
Apple Inc.*	38,700	**3,303,045**
CONSTRUCTION & ENGINEERING—.2%		
Quanta Services Inc.*	19,450	**385,110**
DRUG RETAIL—2.8%		
CVS/Caremark Corp.	154,900	4,451,826
Walgreen Co.	39,200	967,064
		5,418,890
ELECTRICAL COMPONENTS & EQUIPMENT—.2%		
General Cable Corp.*	26,900	**475,861**
FERTILIZERS & AGRICULTURAL CHEMICALS—1.1%		
Mosaic Co., /The	41,700	1,442,820
Potash Corp., of Saskatchewan	10,300	754,166
		2,196,986
FOOD RETAIL—1.0%		
Kroger Co., /The	73,400	**1,938,494**
FOOTWEAR—.2%		
Deckers Outdoor Corp.*	5,000	**399,350**

COMMON STOCKS—(CONT.)	SHARES	VALUE
HEALTH CARE EQUIPMENT—3.2%		
Baxter International Inc.	31,700	$ 1,698,803
Covidien Ltd.	111,800	4,051,632
Insulet Corp.*	63,400	489,448
		6,239,883
HEALTH CARE SUPPLIES—.8%		
Inverness Medical Innovations Inc.*	78,700	**1,488,217**
HOME ENTERTAINMENT SOFTWARE—4.8%		
Activision Blizzard Inc.*	173,500	1,499,040
Nintendo Co., Ltd.#	168,100	7,823,189
		9,322,229
HOMEBUILDING—.4%		
Toll Brothers Inc.*	32,400	**694,332**
HOUSEWARES & SPECIALTIES—.3%		
Tupperware Brands Corp.	23,500	**533,450**
INDUSTRIAL CONGLOMERATES—1.1%		
Tyco International Ltd.	94,500	**2,041,200**
INDUSTRIAL MACHINERY—.8%		
ITT Corp.	34,500	**1,586,655**
INTEGRATED OIL & GAS—.8%		
Chevron Corp.	20,600	**1,523,782**
INTEGRATED TELECOMMUNICATION SERVICES—.5%		
BCE Inc.	50,000	**1,024,500**
INTERNET RETAIL—.3%		
Expedia Inc.*	69,800	**575,152**
INTERNET SOFTWARE & SERVICES—10.8%		
eBay Inc.*	255,983	3,573,523
Google Inc., Cl. A*	22,900	7,045,185
IAC/InterActiveCorp.*	426,400	6,707,272
Netease.com*#	109,500	2,419,950
Sina Corp.*	44,890	1,039,204
		20,785,134
IT CONSULTING & OTHER SERVICES—2.3%		
Cognizant Technology Solutions Corp., Cl. A*	159,061	2,872,641
Satyam Computer Services Ltd.#	182,700	1,651,608
		4,524,249
LEISURE PRODUCTS—.6%		
Gildan Activewear Inc.*	98,090	**1,153,538**
LIFE SCIENCES TOOLS & SERVICES—2.1%		
Life Technologies Corp.*	67,500	1,573,425
Thermo Fisher Scientific Inc.*	70,400	2,398,528
		3,971,953
MANAGED HEALTH CARE—.5%		
UnitedHealth Group Inc.	36,200	**962,920**
METAL & GLASS CONTAINERS—1.8%		
Ball Corp.	25,600	1,064,704
Owens-Illinois Inc.*	88,200	2,410,506
		3,475,210
MOVIES & ENTERTAINMENT—1.4%		
DreamWorks Animation SKG Inc.*	31,800	803,268
Regal Entertainment Group	180,300	1,840,863
		2,644,131

COMMON STOCKS—(CONT.)	SHARES	VALUE
MULTI-UTILITIES—.6%		
Veolia Environnement#	39,800	$ **1,262,058**
OIL & GAS DRILLING—1.0%		
Transocean Ltd.*	40,300	**1,904,175**
OIL & GAS EQUIPMENT & SERVICES—2.2%		
Weatherford International Ltd.*	387,800	**4,195,996**
OIL & GAS EXPLORATION & PRODUCTION—3.1%		
Chesapeake Energy Corp.	184,600	2,984,982
Nexen Inc.	147,700	2,596,566
Whiting Petroleum Corp.*	12,400	414,904
		5,996,452
OTHER DIVERSIFIED FINANCIAL SERVICES—.1%		
BM&F BOVESPA SA	81,400	**210,132**
PACKAGED FOODS & MEATS—2.4%		
General Mills Inc.	30,000	1,822,500
Kraft Foods Inc., Cl. A	102,700	2,757,495
		4,579,995
PHARMACEUTICALS—5.9%		
Abbott Laboratories	123,900	6,612,543
Bristol-Myers Squibb Co.	24,600	571,950
Pfizer Inc.	53,400	945,714
Wyeth	85,000	3,188,350
		11,318,557
PROPERTY & CASUALTY INSURANCE—.5%		
ACE Ltd.	20,000	**1,058,400**
PUBLISHING—.9%		
McGraw-Hill Companies Inc., /The	73,600	**1,706,784**
SEMICONDUCTOR EQUIPMENT—.1%		
Tessera Technologies Inc.*	14,120	**167,746**
SEMICONDUCTORS—1.7%		
Atheros Communications Inc.*	65,800	941,598
Marvell Technology Group Ltd.*	277,600	1,851,592
Skyworks Solutions Inc.*	74,420	412,287
		3,205,477
SOFT DRINKS—1.1%		
Coca-Cola Co., /The	30,800	1,394,316
Hansen Natural Corp.*	22,500	754,425
		2,148,741
SPECIALIZED FINANCE—1.9%		
NASDAQ OMX Group Inc., /The*	38,600	953,806
NYSE Euronext	100,500	2,751,690
		3,705,496
SYSTEMS SOFTWARE—3.8%		
Microsoft Corp.	375,100	**7,291,944**
THRIFTS & MORTGAGE FINANCE—.9%		
People's United Financial Inc.	99,000	**1,765,170**
TOBACCO—7.2%		
Altria Group Inc.	337,500	5,082,750
Philip Morris International Inc.	201,500	8,767,265
		13,850,015
TOTAL COMMON STOCKS		
(Cost $215,573,287)		**179,226,340**

PREFERRED STOCKS—.3%	**SHARES**	**VALUE**
PHARMACEUTICALS		
Mylan Inc., 6.50%, 11/15/10, Pfd. (Cost $519,031)	891	$ **587,196**

CONVERTIBLE CORPORATE BONDS—.2%	**PRINCIPAL AMOUNT**	
LIFE SCIENCES TOOLS & SERVICES		
Life Technologies Corp., 3.25%, 6/15/25 (Cost $350,670)	$ 425,000	**363,375**

SHORT-TERM INVESTMENTS—3.9%		
TIME DEPOSITS		
Branch Bank & Trust, Grand Cayman, .06%, 01/02/09	502,141	502,141
JP Morgan Chase London, .06%, 01/02/09	7,000,000	7,000,000
TOTAL TIME DEPOSITS (Cost $7,502,141)		**7,502,141**

Total Investments (Cost $223,945,129) (a)	97.4%	187,679,052
Other Assets in Excess of Liabilities	2.6	5,024,621
NET ASSETS	**100.0%**	**$192,703,673**

* *Non-income producing security.*
# *American Depositary Receipts.*
(a) *At December 31, 2008, the net unrealized depreciation on investments, based on cost for federal income tax purposes of $235,572,490 amounted to $47,893,438 which consisted of aggregate gross unrealized appreciation of $3,950,291 and aggregate gross unrealized depreciation of $51,843,729.*

THE ALGER AMERICAN FUND
Alger American Capital Appreciation Portfolio
Statement of Assets and Liabilities *December 31, 2008*

ASSETS:	
Investments in securities, at value (identified cost)* see accompanying schedules of investments	$ 187,679,052
Cash	1,888
Receivable for investment securities sold	10,269,584
Receivable for shares of beneficial interest sold	245,192
Dividends and interest receivable	354,114
Prepaid expenses	38,564
Total Assets	198,588,394
LIABILITIES:	
Payable for investment securities purchased	5,562,772
Payable for shares of beneficial interest redeemed	106,854
Accrued investment advisory fees	131,129
Accrued transfer agent fees	2,542
Accrued distribution fees	2,029
Accrued administrative fees	4,654
Accrued expenses	74,741
Total Liabilities	5,884,721
NET ASSETS	**$192,703,673**
Net Assets Consist of:	
Paid in capital	$ 343,022,224
Undistributed net investment income(accumulated loss)	267,365
Undistributed net realized gain (accumulated loss)	(114,319,839)
Net unrealized appreciation (depreciation) of investments	(36,266,077)
NET ASSETS	**$192,703,673**
Class O — Net Asset Value Per Share	**$30.39**
Class S — Net Asset Value Per Share	**$29.86**
SHARES OF BENEFICIIAL INTEREST OUTSTANDING—NOTE 6	
Class O	**6,032,742**
Class S	**313,713**
*Identified Cost	$ 223,945,129

THE ALGER AMERICAN FUND
Alger American Capital Appreciation Portfolio
Statement of Operations
For the year ended December 31, 2008

INCOME:	
Dividends (net of foreign withholding taxes*)	$ 2,943,722
Interest	329,758
Total Income	3,273,480
EXPENSES:	
Advisory fees—Note 3(a)	2,558,428
Distribution fees—Note 3(b)	
Class S	37,140
Administrative fees—Note 3(a)	96,604
Interest expense—Note 5	2,208
Custodian fees	95,325
Fund accounting fees	32,704
Transfer agent fees—Note 3(d)	17,111
Printing fees	84,359
Professional fees	42,470
Trustees' fees—Note 3(e)	13,037
Miscellaneous fees	48,670
Total Expenses	3,028,056
Less, expense reimbursements Note 3(a)	(110,551)
Net Expenses	2,917,505
NET INVESTMENT INCOME	355,975
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY TRANSACTIONS:	
Net realized loss on investments	(112,586,127)
Net realized gain on foreign currency transactions	314,818
Net realized loss on options written	(234,199)
Net change in unrealized appreciation (depreciation) on investments and foreign currency translations	(68,569,668)
Net realized and unrealized loss on investments, options and foreign currency	(181,075,176)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$(180,719,201)**
* Foreign withholding taxes	$ 35,666

See Notes to Financial Statements.

THE ALGER AMERICAN FUND
Alger American Capital Appreciation Portfolio
Statement of Changes in Net Assets

For the year ended December 31, 2008

Net investment income	$ 355,975
Net realized loss on investments, options and foreign currency transactions	(112,505,508)
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency translations	(68,569,668)
Net decrease in net assets resulting from operations	(180,719,201)
Decrease from shares of beneficial interest transactions:	
Class O—Note 6	(59,522,403)
Class S—Note 6	(2,796,744)
Net decrease from shares of beneficial interest transactions	(62,319,147)
Total decrease	(243,038,348)
Net Assets:	
Beginning of year	435,742,021
END OF YEAR	**$192,703,673**
Undistributed net investment income	$ 267,365

See Notes to Financial Statements.

THE ALGER AMERICAN FUND
Alger American Capital Appreciation 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—Note 6	17,021,385
Class S—Note 6	(9,037,079)
Net increase from shares of beneficial interest transactions	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 income	$ (79,899)

See Notes to Financial Statements.

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

	CLASS O				
	Year ended 12/31/08	Year ended 12/31/07	Year ended 12/31/06	Year ended 12/31/05	Year ended 12/31/04
INCOME FROM INVESTMENT OPERATIONS					
Net asset value, beginning of year	$ 55.39	$ 41.48	$ 34.78	$ 30.39	$ 28.09
Net investment income (loss)	0.05(i)	(0.07)(i)	(0.07)(i)	(0.21)	(0.07)
Net realized and unrealized gain on investments	(25.05)	13.98	6.77	4.60	2.37
Total from investment operations	(25.00)	13.91	6.70	4.39	2.30
Net asset value, end of year	$ 30.39	$ 55.39	$ 41.48	$ 34.78	$ 30.39
Total return	(45.13)%	33.53%	19.26%	14.45%	8.19%
RATIOS/SUPPLEMENTAL DATA					
Net assets, end of year (000's omitted)	$183,335	$414,959	$298,024	$298,410	$380,336
Ratio of expenses to average net assets	0.91%(ii)	0.93%(ii)	0.98%	0.91%	0.97%
Ratios of net investment loss to average net assets	0.12%	(0.15)%	(0.19)%	(0.08)%	(0.14)%
Portfolio turnover rate	317.72%	254.03%	245.58%	130.14%	182.41%

(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 12/31/08	Year ended 12/31/07	Year ended 12/31/06	Year ended 12/31/05	Year ended 12/31/04
$ 54.57	$ 40.97	$ 34.44	$ 30.17	$ 27.96
(0.05)(i)	(0.16)(i)	(0.17)(i)	(0.08)	(0.04)
(24.66)	13.76	6.70	4.35	2.25
(24.71)	13.60	6.53	4.27	2.21
$ 29.86	$ 54.57	$ 40.97	$ 34.44	$ 30.17
(45.28)%	33.20%	18.96%	14.15%	7.90%
$ 9,369	$20,783	$23,845	$17,887	$13,772
1.16%(ii)	1.18%(ii)	1.23%	1.16%	1.22%
(0.12)%	(0.34)%	(0.45)%	(0.33)%	(0.31)%
317.72%	254.03%	245.58%	130.14%	182.41%

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 seven series of shares of beneficial interest: American LargeCap Growth Portfolio (formerly known as American Growth Portfolio), American SmallCap Growth Portfolio (formerly known as American Small Capitalization Portfolio), American Income and Growth Portfolio, American Balanced Portfolio, American MidCap Growth Portfolio, American Capital Appreciation Portfolio (formerly known as American Leveraged AllCap Growth Portfolio) and American SmallCap and MidCap Growth Portfolio. These Financial Statements include only the American Capital Appreciation Portfolio (the "Portfolio"). The Portfolio invests primarily in equity securities and has an investment objective of long-term capital appreciation. Shares of the Portfolio are available 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.

The Portfolio changed its name to Alger American SmallCap Growth Portfolio effective May 1, 2008.

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.

Effective January 1, 2008, the Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). In accordance with FAS 157, fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability and may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Fund. Unobservable inputs are inputs that reflect the Fund's own assumptions based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For example, money market securities are valued using amortized cost, in accordance with rules under the Investment Company Act of 1940 (the "1940 Act"). Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities are reflected as Level 2.

The Fund's valuation techniques are consistent with the market approach whereby prices and other relevant information generated by market transactions involving identical or comparable assets are used to measure fair value.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments carried at fair value:

		FAIR VALUE MEASUREMENTS		
DESCRIPTION	**PORTFOLIO TOTAL**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**
Trading securities	$ 187,679,052	$ 187,315,677	$ 363,375	$ —
Total	**$187,679,052**	**$187,315,677**	**$363,375**	—

(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 Statement of Operations.

(d) 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.

(e) 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 Portfolio and any required additional collateral is delivered to the Portfolio on the next business day. There were no securities on loan during the year ended December 31, 2008.

(f) 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, realized gains from redemptions in kind, if any, and reclassification of distributions. The reclassifications have no impact on the net asset values of the Portfolio and are designed to present the Portfolio's capital accounts on a tax basis.

(g) Federal Income Taxes: It is the Portfolios' 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.

(h) 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.

(i) 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.

(j) 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 through March 16, 2008	Administration Fee Effective March 17, 2008
.810%	.04%	.0275%

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, 2008, the Portfolio paid the Distributor $794,900 in connection with securities transactions.

(d) Shareholder Administrative Fees: The Fund has entered into a shareholder administrative service agreement with Alger Management to compensate Alger Management on a per account basis for its liaison and administrative oversight of Boston Financial Data Services, Inc. ("BFDS"), the transfer agent for the Fund and other related services. During the year ended December 31, 2008, the Portfolio incurred fees of $237 for these services provided by Alger Management 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 and the Distributor. 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 U.S. Government securities and short-term securities, for the year ended December 31, 2008, were $958,773,216 and $1,013,016,378, respectively.

Written call and put option activity for the year ended December 31, 2008 was as follows:

	NUMBER OF CONTRACTS	PREMIUMS RECEIVED
Options outstanding at December 31, 2007	—	$ —
Options written	2,721	1,097,892
Options closed or expired	(2,721)	(1,097,892)
Options exercised	—	—
Options outstanding at December 31, 2008	—	$ —

NOTE 5 — Lines of Credit:

The Fund participated in $50 million committed lines of credits with other mutual funds managed by Alger Management through March 14, 2008. All borrowings had variable interest rates and were 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. Effective March 17, 2008, the Portfolio borrowed from its custodian on a uncommitted basis. For the year ended December 31, 2008, the Portfolio had the following borrowings:

AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
$27,378	3.63%

NOTE 6 — Share Capital:

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

During the year ended December 31, 2008, transactions of shares of beneficial interest were as follows:

	SHARES	AMOUNT
Class O:		
Shares sold	943,508	$ 43,208,599
Shares redeemed	(2,402,630)	(102,731,002)
Net decrease	**(1,459,122)**	**$(59,522,403)**
Class S:		
Shares sold	89,652	$ 3,940,202
Shares redeemed	(156,788)	(6,736,946)
Net decrease	**(67,136)**	**$ (2,796,744)**

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)**

NOTE 7 — Tax Character of Distributions to Shareholders:

During the years ended December 31, 2008 and December 31, 2007, there were no distributions paid.

As of December 31, 2008, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	$ —
Undistributed long-term gain	—
Unrealized appreciation (depreciation)	(47,893,438)

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, the tax treatment of premium/discount on debt securities, realization of unrealized appreciation of Passive Foreign Investment Companies, return of capital from Real Estate Investment Trust investments, and investments in Partnerships.

At December 31, 2008, 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	2011	2016	TOTAL
$52,924	$—	$56,271,121	$56,324,045

Net capital losses incurred after October 31 and within the taxable year are deemed to arise on the first business day of the fund's next taxable year. For the period ended December 31, 2008, the amount of deferral for the Portfolio was $46,101,071.

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 Fund that the settlement has not adversely affected the operations of Alger Management, Alger Inc. or their affiliates, or adversely affected their ability to continue to provide services to the Fund.

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 (which was later amended a second time) 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 "1940 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 Fund, 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.

The class and derivative suits have been settled in principle, but such settlement is subject to court approval.

Note 9 — Recent Accounting Pronouncements

On March 19, 2008, the FASB released Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("FAS 161"). FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The application of FAS 161 is required for fiscal years and interim periods beginning after November 15, 2008. At this time, management is evaluating the implications of FAS 161 and believes the adoption of FAS 161 will have no material impact on the Fund's financial statements.

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 Capital Appreciation Portfolio (one of the portfolios constituting The Alger American (Fund) (the "Fund") as of December 31, 2008, and the related statement 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 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, 2008, 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 Capital Appreciation Portfolio at December 31, 2008, 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 U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 10, 2009

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, 2008 and ending December 31, 2008.

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, 2008	Ending Account Value December 31, 2008	Expenses Paid During the Period July 1, 2008 to December 31, 2008 (b)	Ratio of Expenses to Average Net Assets For the Six Months Ended December 31, 2008 (c)
Class O	Actual	$1,000.00	$ 632.50	$3.73	0.91%
	Hypothetical	1,000.00	1,020.56	4.62	0.91
Class S	Actual	1,000.00	631.60	4.76	1.16
	Hypothetical	1,000.00	1,019.30	5.89	1.16

(a) 5% annual return before expenses.
(b) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).
(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 Alger Funds II, The Alger Funds, The Alger Institutional Funds, The Alger 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 (47)	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. (55)	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 (63)	Associate Vice President For Principal Gifts, and Senior Associate Dean of Development, Harvard University. Formerly Deputy Director of the Harvard College Fund.	2007	27
Lester L. Colbert, Jr. (74)	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 (76)	Attorney; Private investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1988	27
David Rosenberg (46)	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. (70)	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 (46) President	President since September 2003, Chief Executive Officer since 2007 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 (44) 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 (43) 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 (43) 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 (55) 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 (53) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President	2007	N/A
Sergio M. Pavone (47) 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 9, 2008, 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 Portfolios 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 by Alger Management 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 that, according to an analysis provided by Callan, the characteristics of each equity Portfolio had been typical of a fund that holds itself out to investors as growth-oriented. They 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 Fund 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 reviewed each Portfolio's returns (other than those of the SmallCap and MidCap Portfolio, which had been operating for one quarter only) for the year-to-date (at 6/30/08), last-quarter, and 1-, 3-, 5-, and 10-year periods to the extent available (and its year-by-year returns) and compared them with benchmark and peer-group data for the same periods. They noted that the performance of each of the equity Portfolios, which had generally been satisfactory in recent periods (or longer), was disappointing for the year to date. Noting that the 2008 market environment for domestic stocks in general and for "growth" stocks in particular had thus far been challenging in 2008, the Trustees discussed the Portfolios' recent performance with Alger Management and the performance prospects for the remainder of the year and beyond. The Trustees noted that the performance of the Balanced Portfolio, which had been improving relative to its peers and benchmarks, had lagged by both measures for the year to date but had shown marked improvement during the quarter ended June 30, 2008. As presented in the Callan materials, the performance of the Income & Growth Portfolio lagged that of its peers and benchmark by particularly wide margins during 2007 and 2008, negatively affecting the 3- and 5-year cumulative returns. The Trustees discussed with Alger Management the Portfolio's performance and Alger Management's plans for improvement.

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, 2008 . 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 most fees and expense ratios were near or below the median, the fees of the Balanced Portfolio and the Capital Appreciation Portfolio and the Class-S expense ratios of all Portfolios except the Income & Growth Portfolio 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 the equity Portfolios' brokerage transactions, reports on which are regularly supplied to the Trustees at their quarterly meetings and summaries of which, listing commissions by Portfolio through June 30, 2008 and December 31, 2007, had been included in the materials supplied prior to the meeting. 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 Management also 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 was generally satisfied with the performance of each of the Portfolios on a relatively long-term basis, but determined to monitor the progress of Alger Management's steps to improve the performance of the equity Portfolios and the Income & Growth Portfolio by comparison with that of the first half of 2008 (as well as 2007 in the case of the Income & Growth Portfolio).
>
> 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 Portfolio also files its 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.

CREDIT SUISSE

CREDIT SUISSE FUNDS

Annual Report

December 31, 2008

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, 2008; 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, 2008 (unaudited)

February 2, 2009

Dear Shareholder:

For the twelve-month period ended December 31, 2008, Credit Suisse Trust — Emerging Markets Portfolio (the "Portfolio")[1] declined 54.80%, versus a decrease of 53.18% for its benchmark, the Morgan Stanley Capital International Emerging Markets Free Index (MSCI EM).[2]

Market Review: Emerging markets hard hit by global deleveraging

The year ended December 31, 2008 was a difficult one for almost all asset classes and emerging markets were no exception. Emerging market equities suffered their largest ever calendar year decline. A collapse of risk appetite and the ongoing credit freeze drove substantial redemptions in the asset class and resulted in declines across all markets, sectors and stocks.

Performance over the year was marked by several stages. In the first half of the year, rising energy and food prices lifted inflation above target rates and resulted in monetary tightening across many markets, which proved to be a strong de-rating force for emerging markets, particularly China. During this period, commodity suppliers (such as Brazil and Russia) and materials stocks were virtually the only outperformers. Markets entered a new phase of downturn in June and July as key commodity prices peaked, leading to large redemptions in BRIC and emerging market funds. The crisis deepened with the Lehman Brothers bankruptcy in September and Iceland's banking crisis in October, which prompted a collapse in risk appetite globally and exacerbated credit scarcity. Markets with poor external fundamentals and weak banking systems (such as those in Hungary and smaller central European countries) came under intense pressure, while a flight to the dollar produced severe weakening in many emerging market currencies. The downturn in markets finally stabilized in late October, following the announcement of aggressive policy measures in developed markets and the announcement of fiscal stimulus by China. Markets staged a year-end rally led by China and material stocks in particular.

Strategic Review and Outlook: More challenges ahead

For the year ended December 31, 2008, the Portfolio slightly underperformed the benchmark. In general, it was a very hard year for performance given the extreme levels of market volatility and the indiscriminate sell-off that hit large cap stocks across all sectors and resulted in massive redemptions from emerging markets. Specifically, the Portfolio's country position and stock selection in Brazil, India and China contributed positively to performance, while stock selection in Russia, South Africa and Mexico detracted from performance.

After a long bull market in emerging markets in which liquidity lifted all boats, we expect the market environment to remain challenging for emerging markets. On the negative side, to the extent that emerging markets remain a cyclical asset class, the global backdrop remains uncertain. The full impact of the downturn in growth in developed markets has yet to be seen, while economic momentum has been decreasing rapidly across emerging markets. On the positive side, fourth quarter gains and the abatement of some of the panic selling that took place in September and October provides a more stable basis for markets going forward. While we expect investor sentiment to remain cautious, the worst of the develeraging may be behind us. Valuations on the whole remain attractive, although we do not see this as significant enough catalyst for a serious return of capital to the asset class. In our opinion, any significant rally in emerging markets is likely to require global catalysts — narrower credit spreads, some stabilization in economic growth momentum and signs that the Chinese policy stimulus is working. We believe that macro and micro fundamentals will become more important in the coming year as differentiating factors for performance.

We remain focused on markets and companies less exposed to reductions in credit availability. For example, on a country level, we will focus on companies with stronger external balance sheets (lower external debt and financing needs/current account surpluses). On a company level, we will look for those with lower cash requirements and good corporate governance. While we expect there to be rallies in cyclical sectors, our portfolios are more broadly focused on domestic interest-rate sensitive sectors, defensive sectors (such as telecom and utilities), and areas that should benefit from countercyclical macroeconomic policies.

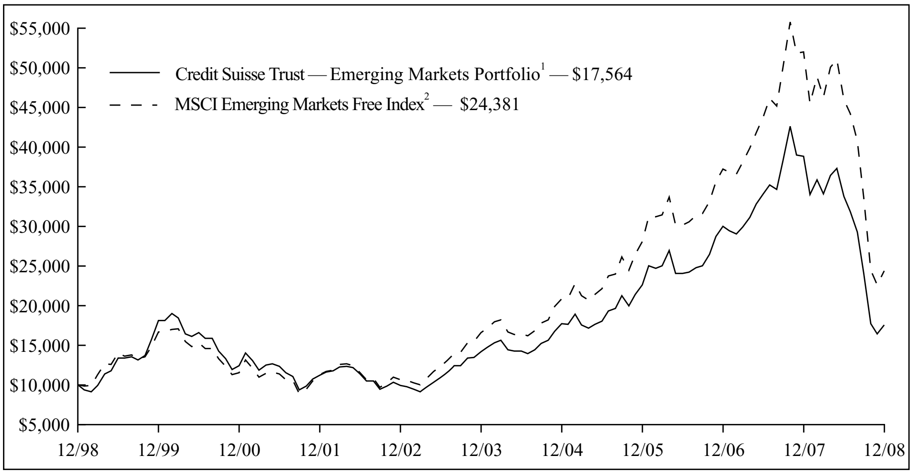
The Credit Suisse Emerging Markets Team

Neil Gregson
Annabel Betz
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] for Ten Years.



Average Annual Returns as of December 31, 2008[1]

1 Year	5 Years	10 Years	Since Inception[3]
(54.80)%	4.38%	5.79%	3.45%

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.*

The annualized gross expense ratio is 1.29%. The annualized net expense ratio after fee waivers and/or expense reimbursements is 1.04%.

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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 Inception date 12/31/97.

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, 2008.

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

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

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

Expenses and Value for a $1,000 Investment for the six month period ended December 31, 2008

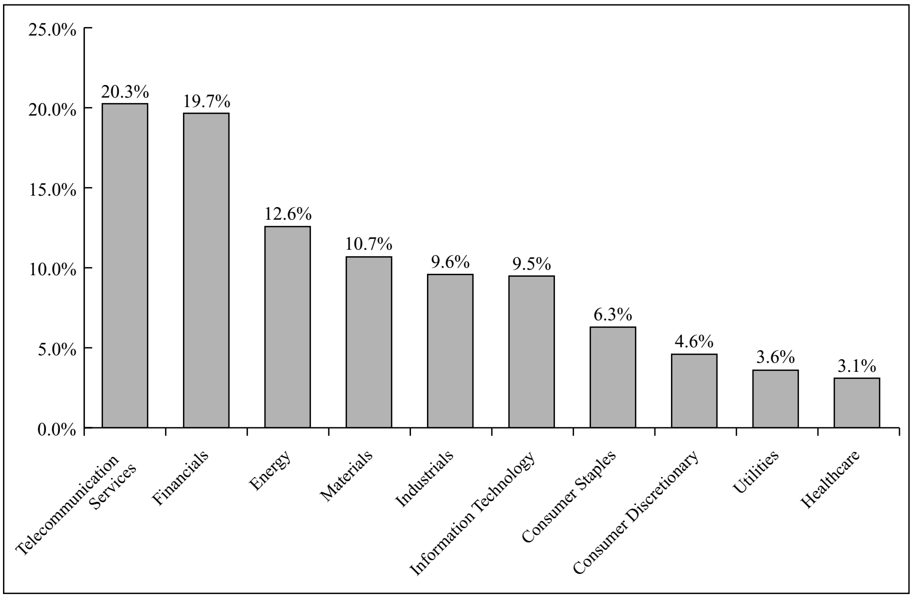
Actual Portfolio Return	
Beginning Account Value 7/1/08	$1,000.00
Ending Account Value 12/31/08	$ 519.60
Expenses Paid per $1,000*	$ 3.59
Hypothetical 5% Portfolio Return	
Beginning Account Value 7/1/08	$1,000.00
Ending Account Value 12/31/08	$1,020.41
Expenses Paid per $1,000*	$ 4.77
Annualized Expense Ratios*	0.94%

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

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

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments
December 31, 2008

	Number of Shares	Value
COMMON STOCKS (91.7%)		
Brazil (7.9%)		
Banks (1.0%)		
Unibanco - Uniao de Bancos Brasileiros SA GDR	7,900	$ 510,498
Air Freight & Couriers (0.3%)		
Log-in Logistica Intermodal SA	71,000	153,752
Diversified Financials (0.4%)		
Banco do Brasil SA	36,000	226,621
Diversified Telecommunication Services (0.8%)		
Brasil Telecom Participacoes SA	16,259	410,658
Electric Utilities (1.7%)		
Companhia Energetica de Minas Gerais	18,364	252,321
EDP - Energias do Brasil SA	30,200	292,676
Tractebel Energia SA	45,000	357,955
		902,952
Food Products (0.3%)		
Cosan SA Industria e Comercio*	28,200	135,921
Oil & Gas (2.3%)		
Petroleo Brasileiro SA - Petrobras ADR	60,500	1,234,805
Real Estate (0.3%)		
PDG Realty SA Empreendimentos e Participacoes	32,300	154,436
Specialty Retail (0.5%)		
Lojas Renner SA	24,400	163,957
Redecard SA	11,227	123,728
		287,685
Wireless Telecommunication Services (0.3%)		
Global Village Telecom SA*	15,700	170,802
TOTAL BRAZIL		4,188,130
Chile (1.3%)		
Electric Utilities (0.7%)		
Empresa Nacional de Electricidad SA ADR	5,000	167,450
Empresa Nacional de Telecumunicaciones SA	19,000	205,728
		373,178
Metals & Mining (0.6%)		
Antofagasta PLC	50,000	313,205
TOTAL CHILE		686,383
China (12.5%)		
Banks (4.4%)		
China Construction Bank Series H	1,491,400	829,772
China Merchants Bank Co., Ltd. Series H	163,000	304,985
Industrial & Commercial Bank of China Series H	2,323,500	1,233,584
		2,368,341

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments (continued)
December 31, 2008

	Number of Shares	Value
COMMON STOCKS		
China		
Construction & Engineering (0.7%)		
China Railway Construction Corp. Series H*	166,000	$ 248,520
China Railway Group Ltd. Series H*	208,000	145,368
		393,888
Construction Materials (0.2%)		
Anhui Conch Cement Co., Ltd. Series H*	20,000	93,016
Electric - Integrated (0.2%)		
Datang International Power Generation Co., Ltd. Series H	168,722	90,050
Food Products (0.6%)		
Chaoda Modern Agriculture (Holdings), Ltd.	462,657	297,308
Hotels, Restaurants & Leisure (0.3%)		
Ctrip.com International, Ltd. ADR	7,500	178,500
Insurance (2.0%)		
China Life Insurance Co., Ltd. Series H	267,100	820,660
Ping An Insurance Group Co., Ltd. Series H	45,000	221,144
		1,041,804
Metals & Mining (0.4%)		
Yanzhou Coal Mining Co., Ltd. Series H	270,082	201,287
Oil & Gas (1.7%)		
China Petroleum & Chemical Corp. (Sinopec) Series H	390,000	239,719
PetroChina Co., Ltd. Series H	776,880	690,379
		930,098
Personal Products (0.9%)		
Hengan International Group Co., Ltd.	150,000	484,026
Transportation Infrastructure (1.1%)		
Jiangsu Expressway Co., Ltd. Series H	780,000	578,755
TOTAL CHINA		6,657,073
Colombia (0.7%)		
Diversified Financials (0.7%)		
Suramericana de Inversiones SA	57,200	393,276
TOTAL COLOMBIA		393,276
Czech Republic (0.7%)		
Electric Utilities (0.7%)		
CEZ	8,300	354,990
TOTAL CZECH REPUBLIC		354,990
Egypt (0.5%)		
Wireless Telecommunication Services (0.5%)		
Orascom Telecom Holding S.A.E	52,000	280,640
TOTAL EGYPT		280,640

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments (continued)
December 31, 2008

	Number of Shares	Value
COMMON STOCKS		
Hong Kong (8.0%)		
Electric - Integrated (0.4%)		
China Resources Power Holdings Co., Ltd.	120,000	$ 233,320
Oil & Gas (0.8%)		
CNOOC, Ltd.	464,500	441,821
Real Estate (1.3%)		
China Overseas Land & Investment, Ltd.	148,677	208,763
China Resources Land, Ltd.	367,542	454,942
		663,705
Wireless Telecommunication Services (5.5%)		
China Mobile, Ltd.	262,344	2,661,771
China Unicom, Ltd.	209,000	254,148
		2,915,919
TOTAL HONG KONG		4,254,765
India (4.7%)		
Automobiles (0.3%)		
Mahindra & Mahindra, Ltd.	24,400	140,261
Chemicals (1.1%)		
Reliance Industries, Ltd.	23,010	585,864
Construction & Engineering (0.3%)		
Larsen & Toubro, Ltd. GDR	10,000	162,000
Diversified Financials (0.6%)		
ICICI Bank, Ltd. ADR	17,800	342,650
Diversified Telecommunication Services (0.8%)		
Bharti Airtel, Ltd.*	30,574	449,331
Electrical Equipment (0.5%)		
Bharat Heavy Electricals, Ltd.	8,700	243,767
Industrial Conglomerates (0.3%)		
Grasim Industries, Ltd.	5,929	149,612
IT Consulting & Services (0.8%)		
Infosys Technologies, Ltd. ADR	17,400	427,518
TOTAL INDIA		2,501,003
Indonesia (1.8%)		
Banks (0.3%)		
PT Bank Rakyat Indonesia	407,000	173,077
Construction Materials (0.4%)		
PT Indocement Tunggal Prakarsa Tbk	440,000	190,023
Diversified Financials (0.3%)		
PT Bank Central Asia Tbk	460,000	139,101
Industrial Conglomerates (0.1%)		
PT Bakrie & Brothers Tbk*	10,953,800	50,247

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments (continued)
December 31, 2008

	Number of Shares	Value
COMMON STOCKS		
Indonesia		
Metals & Mining (0.1%)		
Straits Resources, Ltd.	116,000	$ 74,184
Wireless Telecommunication Services (0.6%)		
PT Telekomunikasi Indonesia	538,984	344,476
TOTAL INDONESIA		971,108
Israel (4.2%)		
Chemicals (0.3%)		
Israel Chemicals, Ltd.	23,500	164,395
Diversified Telecommunication Services (0.6%)		
Bezeq Israeli Telecommunication Corporation, Ltd.	195,000	320,580
Internet Software & Services (0.7%)		
Check Point Software Technologies, Ltd.*	19,000	360,810
Pharmaceuticals (2.6%)		
Teva Pharmaceutical Industries, Ltd. ADR	33,180	1,412,473
TOTAL ISRAEL		2,258,258
Kazakhstan (0.4%)		
Oil & Gas (0.4%)		
KazMunaiGas Exploration Production GDR	18,300	230,580
TOTAL KAZAKHSTAN		230,580
Kuwait (0.1%)		
Financial Services (0.1%)		
Global Investment House KSCC GDR, Rule 144A*‡	23,740	57,688
TOTAL KUWAIT		57,688
Malaysia (2.2%)		
Diversified Telecommunication Services (0.6%)		
Telekom Malaysia Berhad	331,973	296,449
Hotels, Restaurants & Leisure (0.4%)		
Resorts World Berhad	309,971	203,338
Industrial Conglomerates (1.2%)		
IOI Corporation Berhad	329,075	341,256
Kumpulan Sime Darby Bhd	209,000	315,565
		656,821
TOTAL MALAYSIA		1,156,608
Mexico (5.1%)		
Beverages (0.7%)		
Fomento Economico Mexicano SAB de CV ADR	12,731	383,585
Metals & Mining (0.3%)		
Grupo Mexico SA de CV Series B	264,080	169,716

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Mexico		
Multiline Retail (0.5%)		
Wal-Mart de Mexico SAB de CV ADR	9,529	$ 254,593
Real Estate (0.6%)		
Urbi Desarrollos Urbanos SA de CV*	237,772	324,504
Wireless Telecommunication Services (3.0%)		
America Movil SAB de CV ADR Series L	37,774	1,170,616
America Movil SAB de CV Series L	266,342	408,692
		1,579,308
TOTAL MEXICO		2,711,706
Peru (0.4%)		
Metals & Mining (0.4%)		
Compania de Minas Buenaventura SA ADR	9,800	195,216
TOTAL PERU		195,216
Poland (1.1%)		
Banks (0.7%)		
Powszechna Kasa Oszczednosci Bank Polski SA	31,500	380,389
Diversified Telecommunication Services (0.4%)		
Telekomunikacja Polska GDR	35,000	222,250
TOTAL POLAND		602,639
Russia (5.8%)		
Banks (0.4%)		
Sberbank RF	317,000	237,181
Electric Utilities (0.3%)		
Federal Grid Unified Energy System JSC*	6,375,625	25,503
Holding MRSK OAO*	630,900	18,927
Inter Rao Ues OAO*	26,412,217	5,282
Kuzbassenergo*	441,065	882
Mosenergo*	211,972	6,359
OGK - 1*	606,938	6,676
OGK - 3	259,558	3,504
OGK - 4 OJSC*	648,173	7,778
RAO Energy Sysytem of OAO*	630,900	1,262
RusHydro*	2,178,604	45,871
Territorial Generating Co. 14*	6,128,325	613
Territorial Generating Co. 6*	9,669,110	967
TGK - 1 OAO*	24,121,317	2,412
TGK - 10 OAO*	60	57
TGK - 11 Holding OAO*	630,900	126
TGK - 13 OAO*	1,087,214	815
TGK - 2*	8,190,898	819
TGK - 4*	10,009,531	2,502
TGK - 5 JSC*	5	0
TGK - 8*	214,366	26

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Russia		
TGK - 9	42,481,476	$ 1,274
The Second Wholesale Power Market Generating Co.*	315,955	2,528
The Sixth Wholesale Power Market Generating Co.	368,224	2,983
Volga Territorial Generation Co.*	210,977	1,477
		138,643
Food Products (0.1%)		
Uralkali GDR	6,700	60,165
Industrial Conglomerates (0.4%)		
Mining and Metallurgical Company Norilsk Nickel ADR	36,855	234,398
Metals & Mining (0.1%)		
Evraz Group SA GDR	6,400	55,040
Oil & Gas (3.8%)		
Eurasia Drilling Co., Ltd. GDR*	17,000	59,500
Gazprom	239,914	883,927
Gazprom ADR	31,700	456,711
Lukoil ADR	10,600	339,730
Rosneft Oil Co.	68,000	255,000
		1,994,868
Pharmaceuticals (0.4%)		
Pharmstandard Reg S GDR*	18,990	201,294
Wireless Telecommunication Services (0.3%)		
Mobile Telesystems	26,000	100,214
OAO Vimpel Communications ADR	10,745	76,934
		177,148
TOTAL RUSSIA		3,098,737
South Africa (7.5%)		
Banks (1.2%)		
FirstRand, Ltd.	136,452	240,022
Standard Bank Group, Ltd.	45,000	406,017
		646,039
Construction & Engineering (0.8%)		
Group Five, Ltd.	36,600	141,142
Murray & Roberts Holdings, Ltd.	51,500	269,280
		410,422
Construction Materials (0.2%)		
Pretoria Portland Cement Co., Ltd.	33,097	112,395
Air Freight & Couriers (0.0%)		
Reinet Investments SCA*	9,006	9,449
Diversified Telecommunication Services (0.3%)		
Telkom South Africa, Ltd.	10,500	130,382

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments (continued)
December 31, 2008

	Number of Shares	Value
COMMON STOCKS		
South Africa		
Food Products (0.2%)		
Tiger Brands, Ltd.	7,297	$ 112,957
Industrial Conglomerates (0.3%)		
Remgro Ltd.	22,038	182,284
Metals & Mining (1.6%)		
AngloGold Ashanti, Ltd.	11,300	313,408
ArcelorMittal South Africa, Ltd.	18,600	179,359
Impala Platinum Holdings, Ltd.	25,000	368,431
		861,198
Oil & Gas (0.9%)		
Sasol	15,700	477,463
Tobacco (0.3%)		
British American Tobacco PLC*	5,740	152,276
Wireless Telecommunication Services (1.7%)		
MTN Group, Ltd.	75,300	887,798
TOTAL SOUTH AFRICA		3,982,663
South Korea (11.9%)		
Auto Components (0.5%)		
Hyundai Mobis	5,200	265,212
Banks (0.5%)		
Shinhan Financial Group Co., Ltd.	11,832	281,534
Beverages (0.7%)		
Hite Brewery Co., Ltd.*	2,749	364,986
Construction & Engineering (1.0%)		
Daelim Industrial Co., Ltd.	3,900	142,612
Hyundai Development Co.	13,760	364,310
		506,922
Diversified Financials (0.5%)		
KB Financial Group, Inc.*	9,010	241,068
Electrical Equipment (0.5%)		
Pyeong San Co., Ltd.	13,500	274,432
Household Durables (0.6%)		
Woongjin Coway Co., Ltd.	14,800	317,384
Metals & Mining (1.1%)		
POSCO ADR	8,000	602,000
Multiline Retail (1.2%)		
Hyundai Department Store Co., Ltd.	5,829	298,294
Shinsegae Co., Ltd.	880	341,890
		640,184

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
South Korea		
Semiconductor Equipment & Products (3.3%)		
Samsung Electronics Co., Ltd.	4,811	$ 1,754,043
Tobacco (1.1%)		
KT&G Corp.	9,600	607,234
Wireless Telecommunication Services (0.9%)		
SK Telecom Co., Ltd.	3,000	498,651
TOTAL SOUTH KOREA		6,353,650
Taiwan (11.7%)		
Banks (0.6%)		
Chinatrust Financial Holding Co., Ltd.	788,715	337,564
Chemicals (0.9%)		
Formosa Plastics Corp.	140,000	186,762
Taiwan Fertilizer Co., Ltd.	169,000	270,736
		457,498
Communications Equipment (0.3%)		
Zyxel Communications Corp.	284,225	149,238
Computers & Peripherals (0.4%)		
Asustek Computer, Inc.	186,948	210,969
Construction Materials (0.6%)		
Asia Cement Corp.	377,562	329,701
Diversified Financials (1.0%)		
First Financial Holding Co., Ltd.	394,680	210,829
Yuanta Financial Holdings Co., Ltd.	675,900	307,742
		518,571
Diversified Telecommunication Services (1.2%)		
Chunghwa Telecom Co., Ltd.	387,200	623,703
Electronic Equipment & Instruments (1.5%)		
AU Optronics Corp.	340,000	257,749
Catcher Technology Co., Ltd.	110,000	183,749
Hon Hai Precision Industry Co., Ltd.	169,854	334,911
		776,409
Food Products (0.5%)		
Uni-President Enterprises Corp.	305,608	270,562
Industrial Conglomerates (0.5%)		
Far Eastern Textile, Ltd.	440,640	283,632
Insurance (0.6%)		
Cathay Financial Holding Co., Ltd.	298,245	336,021
Multiline Retail (0.2%)		
Far Eastern Department Stores Co., Ltd.	215,250	122,823

See Accompanying Notes to Financial Statements.

	Number of Shares	Value
COMMON STOCKS		
Taiwan		
Real Estate (0.3%)		
Cathay Real Estate Development Co., Ltd.	610,000	$ 135,991
Semiconductor Equipment & Products (2.4%)		
MediaTek, Inc.	39,040	264,047
Taiwan Semiconductor Manufacturing Co., Ltd.	754,210	1,029,104
		1,293,151
Wireless Telecommunication Services (0.7%)		
Taiwan Mobile Co., Ltd.	248,000	369,031
TOTAL TAIWAN		6,214,864
Thailand (2.5%)		
Banks (0.4%)		
Kasikornbank Public Co., Ltd.	175,000	229,518
Construction & Engineering (0.4%)		
Italian - Thai Development Public Co., Ltd.	2,117,000	136,345
Land and Houses Public Co., Ltd.	710,000	78,961
		215,306
Metals & Mining (0.4%)		
Banpu Public Co., Ltd.	29,000	194,206
Oil & Gas (0.5%)		
PTT Exploration & Production PCL	86,000	269,935
Wireless Telecommunication Services (0.8%)		
Advanced Info Service Public Co., Ltd.	191,000	431,096
TOTAL THAILAND		1,340,061
Turkey (0.7%)		
Banks (0.4%)		
Turkiye Is Bankasi Series C	66,000	179,726
Wireless Telecommunication Services (0.3%)		
Turkcell Iletisim Hizmetleri AS	29,000	167,663
TOTAL TURKEY		347,389
TOTAL COMMON STOCKS (Cost $61,631,223)		48,837,427
PREFERRED STOCKS (6.7%)		
Brazil (6.7%)		
Banks (1.1%)		
Banco Itau Holding Financeira SA	53,625	600,177
Beverages (0.9%)		
Companhia de Bebidas das Americas ADR	10,200	451,962
Air Freight & Couriers (0.2%)		
Bradespar SA	12,100	99,519

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Schedule of Investments (continued)
December 31, 2008

	Number of Shares	Value
PREFERRED STOCKS		
Brazil		
Diversified Telecommunication Services (0.3%)		
Telemar Norte Leste SA Class A	6,400	$ 152,316
Metals & Mining (1.9%)		
Companhia Vale do Rio Doce ADR	92,300	982,995
Oil & Gas (1.9%)		
Petroleo Brasileiro SA - Petrobras ADR	42,200	1,033,478
Road & Rail (0.4%)		
All America Latina Logistica	50,500	216,552
TOTAL PREFERRED STOCKS (Cost $1,795,086)		3,536,999
RIGHTS (0.0%)		
Hong Kong (0.0%)		
Real Estate (0.0%)		
China Overseas Land & Investment, Ltd. strike price HKD 8.00 expires 01/21/09* (Cost $0)	5,947	2,133
TOTAL RIGHTS (Cost $0)		2,133
TOTAL INVESTMENTS AT VALUE (98.4%) (Cost $63,426,309)		52,376,559
OTHER ASSETS IN EXCESS OF LIABILITIES (1.6%)		868,078
NET ASSETS (100.0%)		$53,244,637

INVESTMENT ABBREVIATIONS

ADR = American 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, 2008, these securities amounted to a value of $57,688 or 0.1% of net assets.

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Statement of Assets and Liabilities
December 31, 2008

Assets	
Investments at value (Cost $63,426,309) (Note 2)	$ 52,376,559
Foreign currency at value (cost $204,950)	196,205
Receivable for investments sold	570,864
Dividend and interest receivable	121,514
Receivable from investment adviser (Note 3)	116,350
Receivable for portfolio shares sold	72,142
Prepaid expenses and other assets	2,116
Total Assets	53,455,750
Liabilities	
Advisory fee payable (Note 3)	46,910
Administrative services fee payable (Note 3)	11,854
Due to custodian	78,778
Trustees' fee payable	2,574
Payable for portfolio shares redeemed	1,662
Other accrued expenses payable	69,335
Total Liabilities	211,113
Net Assets	
Capital stock, $.001 par value (Note 6)	13,061
Paid-in capital (Note 6)	67,574,955
Undistributed net investment income	864,263
Accumulated net realized loss on investments and foreign currency transactions	(4,141,934)
Net unrealized depreciation on investments and foreign currency translations	(11,065,708)
Net Assets	$ 53,244,637
Shares outstanding	13,060,985
Net asset value, offering price, and redemption price per share	$4.08

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Emerging Markets Portfolio
Statement of Operations
For the Year Ended December 31, 2008

Investment Income (Note 2)	
Dividends	$ 3,000,365
Interest	27,191
Securities lending	140,492
Foreign taxes withheld	(334,048)
Total investment income	2,834,000
Expenses	
Investment advisory fees (Note 3)	1,033,367
Administrative services fees (Note 3)	159,424
Custodian fees	142,649
Audit and tax fees	33,395
Printing fees (Note 3)	32,016
Interest expense (Note 4)	18,192
Trustees' fees	17,285
Legal fees	15,148
Insurance expense	4,670
Transfer agent fees	3,761
Commitment fees (Note 4)	1,568
Miscellaneous expense	35,963
Total expenses	1,497,438
Less: fees waived (Note 3)	(289,647)
Net expenses	1,207,791
Net investment income	1,626,209
Net Realized and Unrealized Gain (Loss) from Investments and Foreign Currency Related Items	
Net realized loss from investments (net of Thailand and India Capital Gain Tax $94,793)	(3,515,087)
Net realized loss from foreign currency transactions	(227,677)
Net increase from payments by affiliates on the disposal of investments in violation of restrictions (Note 3)	116,350
Net change in unrealized appreciation (depreciation) from investments	(82,478,460)
Net change in unrealized appreciation (depreciation) from foreign currency translations	86,810
Net realized and unrealized loss from investments and foreign currency related items	(86,018,064)
Net decrease in net assets resulting from operations	$(84,391,855)

See Accompanying Notes to Financial Statements.

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

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
From Operations		
Net investment income	$ 1,626,209	$ 1,789,326
Net realized gain (loss) from investments and foreign currency transactions	(3,742,764)	57,537,557
Net increase from payments by affiliates on the disposal of investments in violation of restrictions (Note 3)	116,350	—
Net change in unrealized appreciation (depreciation) from investments and foreign currency translations	(82,391,650)	(14,030,363)
Net increase (decrease) in net assets resulting from operations	(84,391,855)	45,296,520
From Dividends and Distributions		
Dividends from net investment income	(2,085,510)	(2,363,281)
Distributions from net realized gains	(57,210,032)	(24,399,983)
Net decrease in net assets resulting from dividends and distributions	(59,295,542)	(26,763,264)
From Capital Share Transactions (Note 6)		
Proceeds from sale of shares	17,676,067	40,554,090
Reinvestment of dividends and distributions	59,295,542	26,763,264
Net asset value of shares redeemed	(59,856,229)	(148,352,555)
Net increase (decrease) in net assets from capital share transactions	17,115,380	(81,035,201)
Net decrease in net assets	(126,572,017)	(62,501,945)
Net Assets		
Beginning of year	179,816,654	242,318,599
End of year	$ 53,244,637	$ 179,816,654
Undistributed net investment income	$ 864,263	$ 1,201,133

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,				
	2008	2007	2006	2005	2004
Per share data					
Net asset value, beginning of year	$ 23.58	$ 21.85	$ 16.82	$ 13.25	$ 10.63
INVESTMENT OPERATIONS					
Net investment income	0.25	0.37	0.21	0.14	0.12
Net gain (loss) on investments and foreign currency related items (both realized and unrealized)	(10.11)[1]	5.58	5.19	3.53	2.53
Total from investment operations	(9.86)	5.95	5.40	3.67	2.65
LESS DIVIDENDS AND DISTRIBUTIONS					
Dividends from net investment income	(0.34)	(0.37)	(0.11)	(0.10)	(0.03)
Distributions from net realized gains	(9.30)	(3.85)	(0.26)	—	—
Total dividends and distributions	(9.64)	(4.22)	(0.37)	(0.10)	(0.03)
Net asset value, end of year	$ 4.08	$ 23.58	$ 21.85	$ 16.82	$ 13.25
Total return[2]	(54.80)%	29.44%	32.51%	27.84%	25.02%
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (000s omitted)	$53,245	$179,817	$242,319	$186,190	$115,224
Ratio of expenses to average net assets	1.04%	1.30%	1.36%	1.40%	1.40%
Ratio of net investment income to average net assets	1.40%	0.94%	1.11%	1.11%	1.21%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.25%	0.15%	0.23%	0.25%	0.29%
Portfolio turnover rate	61%	62%	80%	77%	121%

[1] The investment adviser fully reimbursed the Portfolio for a loss on a transaction not meeting the Portfolio's investment guidelines, which otherwise would have reduced the amount by $0.01 (Note 3).

[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.

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, 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.

Note 2. Significant Accounting Policies

The Portfolio adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that the Portfolio would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including such a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments carried at value:

Valuation Inputs	Investments in Securities	Other Financial Instruments*
Level 1 – Quoted Prices	$17,732,255	$ —
Level 2 – Other Significant Observable Inputs	34,644,304	—
Level 3 – Significant Unobservable Inputs	—	—
Total	$52,376,559	$ —

*Other financial instruments include futures, forwards and swap contracts.

Note 2. Significant Accounting Policies

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.

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.* The Portfolio has reviewed its current tax positions and has determined that no provision for income tax is required in the Portfolio’s financial statements. The Portfolio’s

Note 2. Significant Accounting Policies

federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

F) USE OF ESTIMATES — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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 AG, 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, 2008, 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

Note 2. Significant Accounting Policies

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, 2008, total earnings from the Portfolio's investment in cash collateral received in connection with securities lending arrangements was $415,019, of which $239,963 was rebated to borrowers (brokers). The Portfolio retained $140,492 in income from the cash collateral investment, and SSB, as lending agent, was paid $34,564. 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 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 and Performance Adjustment are calculated and accrued 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.

Note 3. Transactions with Affiliates and Related Parties

	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, 2008, investment advisory fees earned and voluntarily waived were $1,395,384 and $289,647, respectively, less a performance fee adjustment of $362,017. Credit Suisse will not recapture from the Portfolio any fees it waived during the year ended December 31, 2008. 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.") 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 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. As of October 1, 2008, Credit Suisse Australia no longer serves as sub-investment advisor to the Portfolio.

Credit Suisse reimbursed the Portfolio for a $116,350 loss incurred on a transaction in September 2008 not meeting the Portfolio's investment guidelines. The reimbursement was recorded as a receivable as of December 31, 2008 and Credit Suisse subsequently made the payment in January 2009.

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, 2008, co-administrative services fees earned by CSAMSI were $104,654.

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 the relative average net assets of each fund/portfolio, subject to an annual minimum fee. For the year ended December 31, 2008, co-administrative services fees earned by SSB (including out-of-pocket expenses) were $54,770.

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, 2008, Merrill was paid $22,884 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 SSB. 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, 2008, the Portfolio had no loans outstanding under the Credit Facility. During the year ended December 31, 2008, the Portfolio had borrowings under the Credit Facility as follows:

Average Daily Loan Balance	Weighted Average Interest Rate%	Maximum Daily Loan Outstanding
$4,499,486	4.160%	$14,314,000

Note 5. Purchases and Sales of Securities

For the year ended December 31, 2008, purchases and sales of investment securities (excluding short-term investments) were $69,224,575 and $108,177,580, 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, 2008	For the Year Ended December 31, 2007
Shares sold	1,008,819	1,735,883
Shares issued in reinvestment of dividends and distributions	9,915,642	1,264,207
Shares redeemed	(5,490,383)	(6,461,658)
Net increase (decrease)	5,434,078	(3,461,568)

Note 6. Capital Share Transactions

On December 31, 2008, 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
3	92%

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 characteristics of dividends and distributions paid during the years ended December 31, 2008 and 2007, respectively, by the Portfolio were as follows:

Ordinary Income		Long-Term Capital Gain	
2008	2007	2008	2007
$18,662,110	$10,113,031	$40,633,432	$16,650,233

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 forward contracts, mark-to-market income from Passive Foreign Investment Companies and deferral of post-October losses.

At December 31, 2008, the components of distributable earnings on a tax basis were as follows:

Undistributed net investment income	$ 943,224
Accumulated realized gain	2,147,792
Unrealized depreciation	(11,890,458)
Deferral of post – October capital losses	(5,508,381)
Deferral of post – October ordinary and currency losses	(35,556)
	$(14,343,379)

At December 31, 2008, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized depreciation from investments were $64,251,355, $10,305,035, $(22,179,831) and $(11,874,796), respectively.

At December 31, 2008, the Portfolio reclassified $122,431 from accumulated net realized loss from investments to undistributed net investment income, to

Note 7. Federal Income Taxes

adjust for current period permanent book/tax differences 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

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("FAS 161"), an amendment of FASB Statement No. 133. FAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and hedging activities are accounted for, and (c) how derivative instruments and related hedging activities affect a fund's financial position, financial performance, and cash flows. Management of the Portfolio does not believe the adoption of FAS 161 will materially impact the financial statement amounts, but will require additional disclosures. This will include qualitative and quantitative disclosures on derivative positions existing at period end and the effect of using derivatives during the reporting period. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

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, 2008, the results of its operations for the year then ended and the changes in its net assets and financial highlights for the periods presented, 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 audit, which included confirmation of securities at December 31, 2008 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
February 24, 2009

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 18 and 19, 2008, 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."). 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 0.78% 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. (the "Sub-Adviser") 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 ("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-Adviser under the Sub-Advisory Agreement. The Board also noted information received at regular meetings throughout the year related to the services rendered by Credit Suisse and the Sub-Adviser. The Board reviewed background information about Credit Suisse and the Sub-Adviser, including their respective Forms ADV. The Board considered the background and experience of both Credit Suisse's and the Sub-Adviser's senior management and the expertise of, and the amount of attention given to the Portfolio by, senior personnel of Credit Suisse and the Sub-Adviser. With respect to the Sub-Adviser, 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 Agreement, the Board also considered the benefits of retaining Credit Suisse's United Kingdom affiliate given the increased complexity of the domestic and international securities markets, specifically that retention of Credit Suisse U.K. expands the universe of companies and countries from which investment opportunities could be sought.

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-Adviser 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-Adviser and benefits potentially derived from an increase in Credit Suisse's and the Sub-Adviser's 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-Adviser 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-Adviser's method for allocating portfolio investment opportunities among their advisory clients.

Conclusions

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

- Although the combined Contractual Advisory Fee and co-administration fees were the highest in the Expense Group, the Net Advisory Fee and actual total expenses were the lowest in the Expense Group. The Board considered the fee to be reasonable.
- 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 result 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-Adviser and that, based on dialogue with management and counsel, the services provided by Credit Suisse under the Advisory Agreement and by the Sub-Adviser under the Sub-Advisory Agreement 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 Advisory Fee and actual 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 Agreement. 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, Audit Committee Chairman and Nominating Committee Member	Since 2005	Professor of Finance and Economics, Graduate School of Business, Columbia University since 1971.	33	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, Audit and Nominating 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.	26	Director of Aetna, Inc. (insurance company); Director of CarMax Group (used car dealers).

[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 Portfolio 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, Audit and Nominating 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.	26	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, Audit Committee Member and Nominating Committee Chairman	Trustee since 1999 and Chairman since 2005	Partner of Lehigh Court, LLC and RZ Capital (private investment firms) from July 2002 to present.	33	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).

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			
George R. Hornig Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1954)	Chief Executive Officer and President	Since 2008	Managing Director of Credit Suisse; Co-Chief Operating Officer of Asset Management and Head of Asset Management Americas; Associated with Credit Suisse since 1999; Officer of other Credit Suisse Funds.
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.
Cecilia Chau Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1973)	Treasurer	Since 2008	Assistant Vice President of Credit Suisse since June 2007; Associated with Alliance Bernstein L.P. from January 2007 to May 2007; Associated with Credit Suisse from August 2000 to December 2006; 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 Shareholders

During the year ended December 31, 2008, the Portfolio declared $40,633,432 in dividends that were designated as long-term capital gains dividends.

Credit Suisse Trust — Emerging Markets 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.

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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-1208

CREDIT SUISSE

CREDIT SUISSE FUNDS

Annual Report

December 31, 2008

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, 2008; these views and Portfolio holdings may have changed subsequent to these dates. Nothing in this document is a recommendation to purchase or sell securities.

Credit Suisse Trust — Global Small Cap Portfolio
Annual Investment Adviser's Report
December 31, 2008 (unaudited)

January 29, 2009

Dear Shareholder:

For the twelve months ended December 31, 2008, Credit Suisse Trust — Global Small Cap Portfolio (the "Portfolio")[1] had a loss of -46.75%, versus a loss of -42.91% for its benchmark, the Morgan Stanley Capital International World Small Cap Index.[2]

Market Review: A volatile year

The fiscal year ending December 31, 2008 was a tumultuous one marked by dramatic losses in the equity markets. Though 2008 will undoubtedly be remembered, most of us would rather forget it. The MSCI World Small Cap Index, the Portfolio's benchmark, declined 42.91%. Though this was the Index's worst performance on record, it was only 1% worse than the MSCI World Index, which includes securities of companies in all capitalization ranges.

In the United States, central bank target interest rates declined to their lowest level ever at 0% – 0.25%. Additionally, several household names like investment bank Lehman Brothers, global insurer AIG, mortgage and savings providers HBOS and Washington Mutual, and international financial services provider Fortis either went bankrupt or came very close to it. A series of hedge funds imploded — culminating in the $50 billion Madoff scandal, where Bernard Madoff (Chairman of Bernard L. Madoff Investment Securities LLC and former NASDAQ chairman) was accused of what may turn out to be the largest investor fraud ever committed.

Within equities, defensive securities and low beta regions and sectors performed best. For the year, Japanese and American securities, healthcare, consumer staples and telecommunications performed relatively better than the market. Conversely, emerging markets, financials and materials performed relatively worse. Banks in particular performed very poorly as losses eroded shareholder equity, forcing capital raises and, in many cases, leaving current shareholders with almost no equity. Investors moved to low-leverage, high-quality assets as deleveraging forced sellers into the market. This effect was especially felt in Russia (whose market ended the year down 72%) and commodities, both relatively thinly traded markets.

Domestically, the U.S. housing sector continued to weaken in 2008, as evidenced by the S&P/Case Shiller U.S. Home Price Index, which measures home prices in 20 U.S. metropolitan areas. In October, the index was down 18% from a year earlier. The drop was more than originally forecast and has been falling every month since January 2007.

Additionally, unemployment continued to rise in 2008, with increased job losses in all major industry sectors. Non-farm payrolls fell by 533,000 jobs in November, following losses of 403,000 in September and 320,000 in October. The household unemployment rate was 6.7%.

Strategic Review and Portfolio Outlook: Confidence and liquidity need to be restored

For the annual period ending December 31, 2008, the Fund underperformed its benchmark. Asset allocation and stock selection in financials added to performance — though these same factors detracted domestically. Several additional factors detracted from performance: A large underweight in Japanese securities had a material effect on performance due to the strength in the Japanese yen, positions in Russia fell meaningfully over the year and, though exposure to Russian securities was reduced, performance was affected; also, stock selection in the United States, particularly in the energy and health care sectors, was poor.

The small cap market posed additional difficulties. By nature, small cap stocks are less liquid and more risky, and with the credit crisis and liquidation of numerous funds and hedge funds in the second half of the year, volatility increased in the small cap market. In part, this is because hedge funds tend to have more investments in small caps than do retail funds, and as the hedge funds unwound, the sell off of small caps caused a depression in prices.

Within the Fund, we continue to believe that the markets will ultimately differentiate between stronger businesses with better prospects, though this has not been the case in the sell-off so far. Additionally, we are adopting a barbell strategy that will focus equally on high quality companies with better-than-average long-term return profiles and organic growth potential and on cyclical companies with some balance sheet leverage, very low expectations and long-lived assets or brands.

Internationally, the Fund's largest overweight position is in healthcare where there are very strong global secular themes such as obesity, immunology, vaccines and advances in technology. The companies we are invested in have strong competitive positions, are often leaders in their fields and have strong balance sheets and attractive valuations. We expect consolidation to occur in this space and have already seen very large premiums paid for takeovers in 2009.

We believe that 2009 may be another year of bankruptcies. Though credit markets may be beginning to return to normal, banks are still unwilling to lend and have limited capacity to do so. In this environment, highly indebted companies with high fixed costs and rapidly declining volumes will not have the financial flexibility to weather the storm. We will focus on avoiding these companies for 2009.

Globally, the economic outlook remains poor. Gross domestic product (GDP) growth will be the lowest for decades as both emerging and developed economies experience synchronized recessions. Central banks and governments will battle with deflation and trying to increase liquidity. By the end of 2009, we expect investors to become concerned with inflationary pressures and the long-term effects of the current policy response. However, this is not an average downturn and we expect global earnings to continue to drop sharply from here — reflecting the collapse in global demand experienced in the fourth quarter of 2008. However, with earnings declining, it is not impossible for stocks to react positively, even though traditionally this has only occurred for short periods of time. The market is a discounting mechanism. It may be possible that investors have already fully priced in the potential for earnings declines.

Globally, valuations look cheap on an absolute basis and very attractive relative to defensive assets such as government bonds and cash. The MSCI World trailing price earnings estimate is 11x (a level not seen since the 1980's). On a price-to-book basis, the MSCI World is now below 1.5x and its historical long-term average is 2.1x. Relative to U.S. bonds, equities now have a dividend yield higher than 10-year government bonds — a fact, however, that may be pointing to unsustainably low bond yields rather than attractive equities.

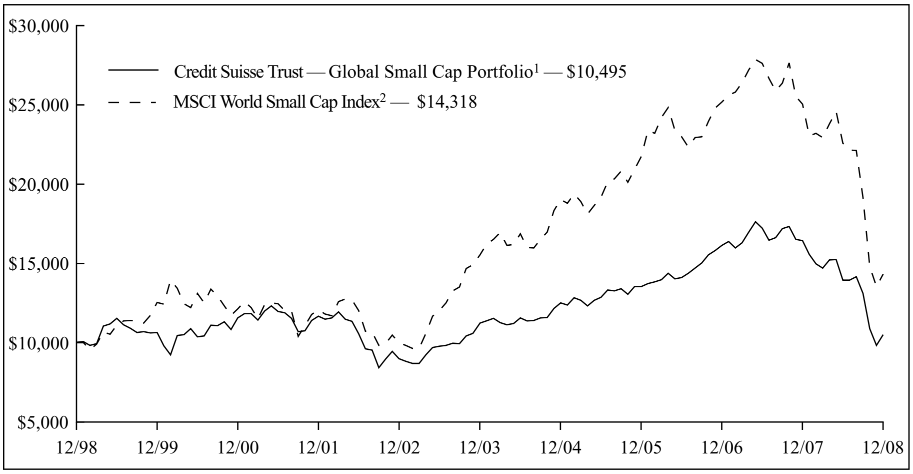
In our opinion, 2009 will be volatile, with sharp rallies and steep declines. However, overall we expect that the markets will end the year up from the lows of 2008.

Robert Graham-Brown
Portfolio Manager

International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods. Because of the nature of the Portfolio's 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, 2008[1]

1 Year	5 Years	10 Years	Since Inception[3]
(46.75)%	(4.52)%	(3.14)%	(1.23)%

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.*

The annualized gross expense ratio is 1.88%. The annualized net expense ratio after fee waivers and/or expense reimbursements is 1.00%.

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, 2008.

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

- **Actual Portfolio Return.** This helps you estimate the actual dollar amount of ongoing expenses paid on a $1,000 investment in the Portfolio using the Portfolio's actual return during the period. To estimate the expenses you paid over the period, simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the "Expenses Paid per $1,000" line under the share class you hold.

- **Hypothetical 5% Portfolio Return.** This helps you to compare your Portfolio's ongoing expenses with those of other mutual funds using the Portfolio's actual expense ratio and a hypothetical rate of return of 5% per year before expenses. Examples using a 5% hypothetical portfolio return may be found in the shareholder reports of other mutual funds. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period.

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

Expenses and Value for a $1,000 Investment for the six month period ended December 31, 2008

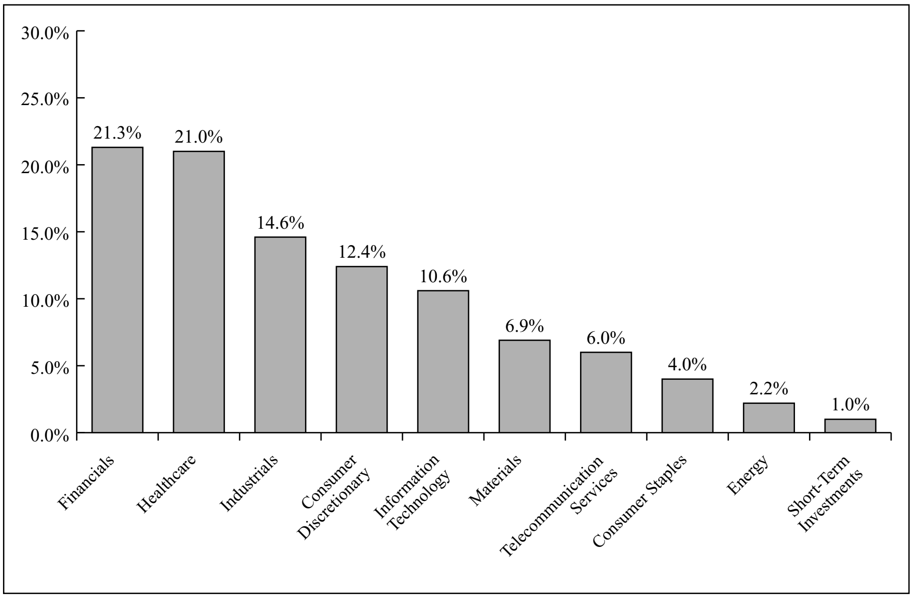
Actual Portfolio Return	
Beginning Account Value 7/1/08	$1,000.00
Ending Account Value 12/31/08	$ 572.80
Expenses Paid per $1,000*	$ 3.95
Hypothetical 5% Portfolio Return	
Beginning Account Value 7/1/08	$1,000.00
Ending Account Value 12/31/08	$1,020.11
Expenses Paid per $1,000*	$ 5.08
Annualized Expense Ratios*	1.00%

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

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

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments
December 31, 2008

	Number of Shares	Value
COMMON STOCKS (97.9%)		
Austria (2.1%)		
Pharmaceuticals (2.1%)		
Intercell AG*	22,920	$ 720,892
TOTAL AUSTRIA		720,892
Belgium (3.7%)		
Diversified Telecommunication Services (3.1%)		
Mobistar SA	14,600	1,053,166
Metals & Mining (0.6%)		
Umicore	11,060	218,551
TOTAL BELGIUM		1,271,717
Cyprus (0.6%)		
Banks (0.6%)		
Bank of Cyprus Public Co., Ltd.	52,430	196,894
TOTAL CYPRUS		196,894
Denmark (2.1%)		
Biotechnology (0.5%)		
Genmab AS*	4,690	182,057
Insurance (1.6%)		
Trygvesta AS	8,530	537,558
TOTAL DENMARK		719,615
Finland (3.9%)		
Auto Components (1.0%)		
Nokian Renkaat Oyj	31,020	352,442
Diversified Telecommunication Services (2.9%)		
Elisa Oyj	57,477	1,000,610
TOTAL FINLAND		1,353,052
France (5.4%)		
Media (4.2%)		
Eutelsat Communications	47,510	1,122,130
M6 Metropole Television	17,890	346,837
		1,468,967
Software (1.2%)		
UbiSoft Entertainment SA*	21,260	417,113
TOTAL FRANCE		1,886,080
Germany (1.9%)		
Containers & Packaging (1.3%)		
Gerresheimer AG	17,340	471,832
Internet Software & Services (0.6%)		
Wirecard AG*	33,580	196,247
TOTAL GERMANY		668,079

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2008

	Number of Shares	Value
COMMON STOCKS		
Gibraltar (0.7%)		
Hotels, Restaurants & Leisure (0.7%)		
888 Holdings PLC	160,980	$ 230,213
TOTAL GIBRALTAR		230,213
Italy (1.2%)		
Textiles & Apparel (1.2%)		
Tod's SpA	9,390	408,692
TOTAL ITALY		408,692
Japan (2.5%)		
Diversified Financials (2.5%)		
iShares MSCI Japan Small Cap Index Fund	22,170	885,692
TOTAL JAPAN		885,692
Netherlands (2.0%)		
Electronic Equipment & Instruments (2.0%)		
Gemalto NV*	27,410	689,584
TOTAL NETHERLANDS		689,584
Russia (0.7%)		
Pharmaceuticals (0.7%)		
Pharmstandard Reg S GDR*	22,116	234,430
TOTAL RUSSIA		234,430
Spain (2.2%)		
Biotechnology (2.2%)		
Grifols SA	43,220	757,286
TOTAL SPAIN		757,286
Sweden (0.9%)		
Healthcare Equipment & Supplies (0.9%)		
Elekta AB B Shares	32,080	322,810
TOTAL SWEDEN		322,810
Switzerland (1.3%)		
Biotechnology (0.6%)		
Basilea Pharmaceutica AG*	1,460	207,233
Healthcare Equipment & Supplies (0.7%)		
Nobel Biocare Holding AG	11,770	243,048
TOTAL SWITZERLAND		450,281
United Kingdom (12.4%)		
Aerospace & Defense (2.0%)		
Smiths Group PLC	22,120	284,241
VT Group PLC	49,330	398,565
		682,806

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2008

	Number of Shares	Value
COMMON STOCKS		
United Kingdom		
Commercial Services & Supplies (3.8%)		
Aggreko PLC	66,670	$ 435,246
Serco Group PLC	133,820	875,991
		1,311,237
Industrial Conglomerates (1.4%)		
Intertek Group PLC	41,630	475,391
Insurance (2.4%)		
Amlin PLC	158,850	825,686
Oil & Gas (2.1%)		
Petrofac, Ltd.	145,280	727,230
Road & Rail (0.7%)		
Arriva PLC	30,405	264,754
TOTAL UNITED KINGDOM		4,287,104
United States (54.3%)		
Chemicals (2.5%)		
CF Industries Holdings, Inc.	9,680	475,869
Intrepid Potash, Inc.*	18,450	383,206
		859,075
Commercial Services & Supplies (4.9%)		
Brink's Home Security Holdings, Inc.*	1,700	37,264
Stericycle, Inc.*	9,960	518,717
VistaPrint, Ltd.*	23,800	442,918
Waste Connections, Inc.*	21,750	686,647
		1,685,546
Containers & Packaging (2.4%)		
Pactiv Corp.*	32,940	819,547
Distributor (0.8%)		
Pool Corp.	16,440	295,427
Diversified Financials (10.3%)		
IntercontinentalExchange, Inc.*	2,230	183,841
MSCI, Inc. Class A*	22,820	405,283
NewAlliance Bancshares, Inc.	71,570	942,577
Portfolio Recovery Associates, Inc.*	16,820	569,189
SPDR KBW Regional Banking ETF	49,600	1,446,336
		3,547,226
Electric Utilities (0.0%)		
VeraSun Energy Corp.*	500	28
Electronic Equipment & Instruments (3.3%)		
American Superconductor Corp.*	23,410	381,817
Itron, Inc.*	11,720	747,033
		1,128,850

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2008

	Number of Shares	Value
COMMON STOCKS		
United States		
Energy Equipment & Services (0.1%)		
Basic Energy Services, Inc.*	2,700	$ 35,208
Healthcare Equipment & Supplies (9.6%)		
American Medical Systems Holdings, Inc.*	18,450	165,866
Cyberonics, Inc.*	15,630	258,989
Dexcom, Inc.*	45,420	125,359
ev3, Inc.*	59,860	365,146
Illumina, Inc.*	14,920	388,666
Intuitive Surgical, Inc.*	3,420	434,306
Masimo Corp.*	19,080	569,156
NuVasive, Inc.*	16,920	586,278
Vnus Medical Technologies*	26,020	422,044
		3,315,810
Healthcare Providers & Services (5.3%)		
Amedisys, Inc.*	13,770	569,252
PSS World Medical, Inc.*	32,710	615,602
Psychiatric Solutions, Inc.*	23,340	650,019
		1,834,873
Household Durables (0.8%)		
Toll Brothers, Inc.*	12,820	274,733
Insurance (1.8%)		
Arthur J. Gallagher & Co.	24,290	629,354
Internet Software & Services (1.0%)		
Equinix, Inc.*	6,210	330,310
IT Consulting & Services (1.4%)		
SAIC, Inc.*	25,600	498,688
Leisure Equipment & Products (1.1%)		
Marvel Entertainment, Inc.*	12,300	378,225
Machinery (0.5%)		
Charter International PLC	40,400	191,681
Multiline Retail (1.3%)		
Family Dollar Stores, Inc.	17,220	448,925
Oil & Gas (0.0%)		
Brigham Exploration Co.*	300	960
Personal Products (3.9%)		
Alberto-Culver Co.	28,260	692,652
Chattem, Inc.*	9,320	666,660
		1,359,312

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Schedule of Investments (continued)
December 31, 2008

	Number of Shares	Value
COMMON STOCKS		
United States		
Real Estate (0.0%)		
Anthracite Capital, Inc.	3,600	$ 8,028
Software (2.2%)		
Concur Technologies, Inc.*	23,060	756,829
Specialty Retail (1.1%)		
The Buckle, Inc.	1,300	28,366
Tractor Supply Co.*	9,810	354,533
		382,899
TOTAL UNITED STATES		18,781,534
TOTAL COMMON STOCKS (Cost $41,697,604)		33,863,955
SHORT-TERM INVESTMENT (0.9%)		
	Par (000)	
State Street Bank and Trust Co. Euro Time Deposit, 0.010%, 1/02/09 (Cost $330,000)	$ 330	330,000
TOTAL INVESTMENTS AT VALUE (98.8%) (Cost $42,027,604)		34,193,955
OTHER ASSETS IN EXCESS OF LIABILITIES (1.2%)		405,677
NET ASSETS (100.0%)		$34,599,632

INVESTMENT ABBREVIATION

GDR = Global Depositary Receipt

* Non-income producing security.

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Statement of Assets and Liabilities
December 31, 2008

Assets	
Investments at value (Cost $42,027,604) (Note 2)	$ 34,193,955
Foreign currency at value (cost $375,118)	404,666
Receivable for investments sold	411,103
Receivable from investment adviser (Note 3)	55,393
Dividend receivable	44,479
Receivable for portfolio shares sold	23,284
Prepaid expenses	1,053
Total Assets	35,133,933
Liabilities	
Administrative services fee payable (Note 3)	21,805
Due to custodian	411,020
Payable for portfolio shares redeemed	3,020
Trustees' fee payable	2,741
Other accrued expenses payable	95,715
Total Liabilities	534,301
Net Assets	
Capital stock, $.001 par value (Note 6)	4,700
Paid-in capital (Note 6)	83,533,671
Undistributed net investment income	277,383
Accumulated net realized loss on investments and foreign currency transactions	(41,411,628)
Net unrealized depreciation on investments and foreign currency translations	(7,804,494)
Net Assets	$ 34,599,632
Shares outstanding	4,699,960
Net asset value, offering price, and redemption price per share	$7.36

See Accompanying Notes to Financial Statements.

Credit Suisse Trust — Global Small Cap Portfolio
Statement of Operations
For the Year Ended December 31, 2008

Investment Income (Note 2)	
Dividends	$ 1,032,797
Interest	21,422
Securities lending	179,855
Foreign taxes withheld	(41,070)
Total investment income	1,193,004
Expenses	
Investment advisory fees (Note 3)	765,229
Administrative services fees (Note 3)	140,050
Custodian fees	85,544
Printing fees (Note 3)	49,542
Audit and tax fees	30,908
Trustees' fees	18,452
Legal fees	18,202
Transfer agent fees	7,484
Interest expense (Note 4)	3,941
Insurance expense	2,318
Commitment fees (Note 4)	696
Miscellaneous expense	25,624
Total expenses	1,147,990
Less: fees waived (Note 3)	(535,807)
Net expenses	612,183
Net investment income	580,821
Net Realized and Unrealized Gain (Loss) from Investments and Foreign Currency Related Items	
Net realized loss from investments	(21,558,899)
Net realized loss from foreign currency transactions	(295,088)
Net change in unrealized appreciation (depreciation) from investments	(13,323,940)
Net change in unrealized appreciation (depreciation) from foreign currency translations	28,632
Net realized and unrealized loss from investments and foreign currency related items	(35,149,295)
Net decrease in net assets resulting from operations	$(34,568,474)

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, 2008	For the Year Ended December 31, 2007
From Operations		
Net investment income	$ 580,821	$ 1,081,979
Net realized gain (loss) from investments and foreign currency transactions	(21,853,987)	5,947,961
Net change in unrealized appreciation (depreciation) from investments and foreign currency translations	(13,295,308)	(9,598,158)
Net decrease in net assets resulting from operations	(34,568,474)	(2,568,218)
From Dividends		
Dividends from net investment income	(1,052,206)	—
From Capital Share Transactions (Note 6)		
Proceeds from sale of shares	4,683,315	8,774,027
Reinvestment of dividends	1,052,206	—
Net asset value of shares redeemed	(22,399,564)	(38,426,851)
Net decrease in net assets from capital share transactions	(16,664,043)	(29,652,824)
Net decrease in net assets	(52,284,723)	(32,221,042)
Net Assets		
Beginning of year	86,884,355	119,105,397
End of year	$ 34,599,632	$ 86,884,355
Undistributed net investment income	$ 277,383	$ 1,053,844

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,				
	2008	2007	2006	2005	2004
Per share data					
Net asset value, beginning of year	$ 14.08	$ 14.67	$ 12.95	$ 11.15	$ 9.45
INVESTMENT OPERATIONS					
Net investment income (loss)	0.10	0.18	(0.00)[1]	(0.04)	(0.09)
Net gain (loss) on investments and foreign currency related items (both realized and unrealized)	(6.61)	(0.77)	1.72	1.84	1.79
Total from investment operations	(6.51)	(0.59)	1.72	1.80	1.70
LESS DIVIDENDS					
Dividends from net investment income	(0.21)	—	—	—	—
Net asset value, end of year	$ 7.36	$ 14.08	$ 14.67	$ 12.95	$ 11.15
Total return[2]	(46.75)%	(4.02)%	13.28%	16.14%	17.99%
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (000s omitted)	$34,600	$86,884	$119,105	$129,308	$110,110
Ratio of expenses to average net assets	1.00%	1.37%	1.40%	1.40%	1.40%
Ratio of net investment income (loss) to average net assets	0.95%	1.01%	(0.02)%	(0.39)%	(0.85)%
Decrease reflected in above operating expense ratios due to waivers/reimbursements	0.88%	0.21%	0.16%	0.19%	0.17%
Portfolio turnover rate	171%	76%	117%	75%	79%

[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, 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.

Note 2. Significant Accounting Policies

The Portfolio adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that the Portfolio would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including such a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments carried at value:

Valuation Inputs	Investments in Securities	Other Financial Instruments*
Level 1 – Quoted Prices	$19,901,656	$ —
Level 2 – Other Significant Observable Inputs	14,292,299	—
Level 3 – Significant Unobservable Inputs	—	—
Total	$34,193,955	$ —

*Other financial instruments include futures, forwards and swap contracts.

Note 2. Significant Accounting Policies

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.

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.* The Portfolio has reviewed its current tax positions and has determined that no provision for income tax is required in the Portfolio's financial statements. The Portfolio's

Note 2. Significant Accounting Policies

federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

F) USE OF ESTIMATES — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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 AG, 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, 2008, 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 and/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 contract. Risks of entering into futures contracts for hedging purposes include the possibility that a change in the value of the

Note 2. Significant Accounting Policies

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 subsequent payments may be required for a futures transaction. At December 31, 2008, 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, 2008, total earnings from the Portfolio's investment in cash collateral received in connection with securities lending arrangements was $550,737, of which $326,509 was rebated to borrowers (brokers). The Portfolio retained $179,855 in income from the cash collateral investment, and SSB, as lending agent, was paid $44,373. 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

Note 2. Significant Accounting Policies

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. 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, 2008, investment advisory fees earned and voluntarily waived were $765,229 and $535,807, respectively. Credit Suisse will not recapture from the Portfolio any fees it waived during the year ended December 31, 2008. 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.") 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 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. As of October 1, 2008, Credit Suisse Australia no longer serves as sub-investment advisor to 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, 2008, co-administrative services fees earned by CSAMSI were $55,096.

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 the relative average net assets of each fund/portfolio, subject to an annual minimum fee. For the year ended December 31, 2008, co-administrative services fees earned by SSB (including out-of-pocket expenses) were $84,954.

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, 2008, Merrill was paid $30,174 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 SSB. 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, 2008, the Portfolio had no loans outstanding under the Credit Facility. During the year ended December 31, 2008, the Portfolio had borrowings under the Credit Facility as follows:

Average Daily Loan Balance	Weighted Average Interest Rate %	Maximum Daily Loan Outstanding
$1,156,484	3.958%	$1,693,000

Note 5. Purchases and Sales of Securities

For the year ended December 31, 2008, purchases and sales of investment securities (excluding short-term investments) were $102,730,165 and $120,608,798, 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, 2008	For the Year Ended December 31, 2007
Shares sold	419,195	576,327
Shares issued in reinvestment of dividends	94,708	—
Shares redeemed	(1,985,343)	(2,523,446)
Net decrease	(1,471,440)	(1,947,119)

On December 31, 2008, 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	73%

Note 6. Capital Share Transactions

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 characteristics of dividends paid during the years ended December 31, 2008 and 2007, respectively, by the Portfolio were as follows:

Ordinary Income	
2008	2007
$1,052,206	$—

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 and deferral of post-October losses. At December 31, 2008, the components of distributable earnings on a tax basis for the Portfolio were as follows:

Undistributed net investment income	$ 419,403
Accumulated net realized loss	(23,923,701)
Unrealized depreciation	(8,382,854)
Deferral of post-October capital losses	(16,909,566)
Deferral of post-October currency losses	(142,021)
	$(48,938,739)

At December 31, 2008, the Portfolio had capital loss carryforwards available to offset possible future capital gains as follows:

Expires December 31,		
2010	2011	2016
$14,618,807	$4,878,198	$4,426,696

During the tax year ended December 31, 2008, the Portfolio did not utilize any of the capital loss carryforward.

It is uncertain whether the Portfolio will be able to realize the benefits of the capital loss carryforward before they expire.

At December 31, 2008, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities

Note 7. Federal Income Taxes

having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized depreciation from investments were $42,605,964, $1,092,058, $(9,504,067) and $(8,412,009), respectively.

At December 31, 2008, the Portfolio reclassified $305,076 from undistributed net investment income and $31,570 from paid-in capital to accumulated realized loss, to adjust for the current period permanent book/tax differences which arose principally from differing book/tax treatments of capital gain distributions received from Real Estate Investment Trusts, foreign currency gain (loss), reversal of prior year return of capital adjustments on Real Estate Investment Trusts sold and prior year adjustments on Partnerships. 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

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("FAS 161"), an amendment of FASB Statement No. 133. FAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and hedging activities are accounted for, and (c) how derivative instruments and related hedging activities affect a fund's financial position, financial performance, and cash flows. Management of the Portfolio does not believe the adoption of FAS 161 will materially impact the financial statement amounts, but will require additional disclosures. This will include qualitative and quantitative disclosures on derivative positions existing at period end and the effect of using derivatives during the reporting period. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

Credit Suisse Trust — Global Small Cap Portfolio
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, 2008, the results of its operations for the year then ended and the changes in its net assets and financial highlights the periods presented, 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 audit, which included confirmation of securities at December 31, 2008 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
February 24, 2009

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 18 and 19, 2008, 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.") 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 0.60% paid by the Portfolio after taking waivers and expense 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. (the "Sub-Adviser") 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 ("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-Adviser under the Sub-Advisory Agreement. The Board also noted information received at regular meetings throughout the year related to the services rendered by Credit Suisse and the Sub-Adviser. The Board reviewed background information about Credit Suisse and the Sub-Adviser, including their respective Forms ADV. The Board considered the background and experience of both Credit Suisse's and the Sub-Adviser's senior management and the expertise of, and the amount of attention given to the Portfolio by, senior personnel of Credit Suisse and the Sub-Adviser. With respect to the Sub-Adviser, 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 Agreement, the Board also considered the benefits of retaining Credit Suisse's United Kingdom affiliate given the increased complexity of the domestic and international securities markets, specifically that retention of Credit Suisse U.K. expands the universe of companies and countries from which investment opportunities could be sought.

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-Adviser 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-Adviser and benefits potentially derived from an increase in Credit Suisse's and the Sub-Adviser's 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-Adviser 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-Adviser's method for allocating portfolio investment opportunities among their advisory clients.

Conclusions

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

- The Contractual Advisory Fee was the highest in the Expense Group, but the Net Advisory Fee was lower than the median in the Expense Group. The Board noted the recent increase in the fee waiver and considered the fee to be reasonable.

- The Portfolio's performance was the lowest in the Performance Group, and was among the lowest in its Performance Universe, for all periods reviewed. The Board noted that changes to investment strategy and portfolio management of the Fund had gone into effect on October 31, 2008, including a change from a quantitative/fundamental mix to a pure fundamental approach. 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-Adviser and that, based on dialogue with management and counsel, the services provided by Credit Suisse under the Advisory Agreement and by the Sub-Adviser under the Sub-Advisory Agreement 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 Agreement. The Independent Trustees were advised by separate independent legal counsel throughout the process.

Credit Suisse Trust — Global Small Cap 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, Audit Committee Chairman and Nominating Committee Member	Since 2005	Professor of Finance and Economics, Graduate School of Business, Columbia University since 1971.	33	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, Audit and Nominating 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.	26	Director of Aetna, Inc. (insurance company); Director of CarMax Group (used car dealers).

[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 Portfolio 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, Audit and Nominating 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.	26	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, Audit Committee Member and Nominating Committee Chairman	Trustee since 1999 and Chairman since 2005	Partner of Lehigh Court, LLC and RZ Capital (private investment firms) from July 2002 to present.	33	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).

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			
George R. Hornig Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1954)	Chief Executive Officer and President	Since 2008	Managing Director of Credit Suisse; Co-Chief Operating Officer of Asset Management and Head of Asset Management Americas; Associated with Credit Suisse since 1999; Officer of other Credit Suisse Funds.
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.
Cecilia Chau Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1973)	Treasurer	Since 2008	Assistant Vice President of Credit Suisse since June 2007; Associated with Alliance Bernstein L.P. from January 2007 to May 2007; Associated with Credit Suisse from August 2000 to December 2006; 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.

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-1208

Dreyfus Investment Portfolios, MidCap Stock Portfolio

ANNUAL REPORT December 31, 2008

BNY MELLON
ASSET MANAGEMENT

Dreyfus

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

Contents

THE PORTFOLIO

FOR MORE INFORMATION

A LETTER FROM THE CEO

Dear Shareholder:

We present to you this annual report for Dreyfus Investment Portfolios, MidCap Stock Portfolio, covering the 12-month period from January 1, 2008, through December 31, 2008.

2008 was the most difficult year in decades for the economy and stock market. A credit crunch that originated in 2007 in the U.S. sub-prime mortgage market exploded in mid-2008 into a global financial crisis, resulting in the failures of major financial institutions, a deep and prolonged recession and lower investment values across a broad range of asset classes. Governments and regulators throughout the world moved aggressively to curtail the damage, implementing unprecedented reductions of short-term interest rates, massive injections of liquidity into the banking system, government bailouts of struggling companies and plans for massive economic stimulus programs.

Although we expect the U.S. and global economies to remain weak until longstanding imbalances have worked their way out of the system, the financial markets currently appear to have priced in investors' generally low expectations. In previous recessions, however, the markets have tended to anticipate economic improvement before it occurs, potentially leading to major rallies when few expected them. That's why it makes sense to remain disciplined, maintain a long-term perspective and adopt a consistent asset allocation strategy that reflects one's future goals and attitudes toward risk. As always, we urge you to consult with your financial advisor, who can recommend the course of action that is right for you.

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,

Jonathan R. Baum
Chief Executive Officer
The Dreyfus Corporation
January 15, 2009

DISCUSSION OF PERFORMANCE

For the period of January 1, 2008, through December 31, 2008, as provided by Michael Dunn, Oliver Buckley, Langton C. Garvin and Patrick Slattery, Portfolio Managers

Portfolio and Market Performance Overview

For the 12-month period ended December 31, 2008, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of –40.42%, and its Service shares produced a total return of –40.44%.[1] In comparison, the portfolio's benchmark, the Standard & Poor's MidCap 400 Index ("S&P 400 Index"), produced a total return of –36.23% for the same period.[2]

Stocks plunged from September through November 2008 under pressure from slowing economic growth and a sharply tightening credit market. These factors took a heavy toll on stocks in all market capitalization ranges, with midcap stocks roughly equaling the declines in their large-cap counterparts. Disappointing individual stock selections caused the portfolio's relative performance to lag its benchmark.

The Portfolio's Investment Approach

The portfolio seeks 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 S&P 400 Index. To pursue this goal, the portfolio normally invests at least 80% of its assets in stocks of midsize companies. The portfolio invests in growth and value stocks, which are chosen through a disciplined investment process that combines computer modeling techniques, fundamental analysis and risk management. Consistency of returns compared to the S&P 400 Index is a primary goal of the investment process.

Volatile Conditions Drove Unpredictable Market Shifts

Markets behaved unpredictably during 2008, rising and falling steeply in response to changing economic winds. Demand from emerging industrial giants such as China and India pushed prices of petroleum and many basic materials to unprecedented heights during the first half of the year, only for those prices to collapse over the second half of the year as economic growth slowed and demand receded. Housing prices deflated throughout the year, leading to a crisis in securitized mortgage instruments that drove several major financial institutions out of business or to the brink of insolvency over the summer. The ensuing credit squeeze sharply limited access to capital for businesses, consumers and investors. As housing values dropped and unemployment surged, consumers curtailed discretionary spending. By the end of 2008, every market sector in the S&P 400 Index showed substantial declines, with the hard-hit financials sector losing more than half of its value.

The effectiveness of the portfolio's momentum and value stock selection factors fluctuated in this challenging environment. Each set of factors considered by our models contributed positively to the portfolio's results at times, but on balance neither bolstered returns on a consistent basis. The impact of market volatility was most apparent in the financials sector, which included some of the portfolio's best and worst performers. On the positive side, insurer Philadelphia Consolidated Holding, which was sold during the reporting period, was acquired at an attractive premium, and stock exchange The NASDAQ OMX Group benefited from rising trading volumes, an expanding overseas presence and effective cost cutting measures. On the negative side, two real estate investment trusts, ProLogis, which was sold during the reporting period, and Hospitality Properties Trust were hurt by the weakening economy and slumping real estate markets, as was property management firm Jones Lang LaSalle.

Mixed Returns in Other Sectors

During the reporting period every sector represented in the portfolio moved lower in absolute terms, on average, however, a number of individual investments contributed positively to its relative performance. These included consumer-related holdings, such as toy maker Hasbro and discount retailers Dollar Tree and Family Dollar Stores, which bucked otherwise negative sector trends. Edwards Lifesciences gained ground on takeover speculation and the success of its minimally invasive heart valve products in Europe. ITT Educational Services rose due to greater demand for career training in the weak economy. Several other holdings, such as beverage container maker Crown Holdings, independent energy company Southwestern Energy and natural gas utility WGL Holdings, maintained more of their value during the downturn than most stocks in their sectors.

Unfortunately, the relatively strong investments cited above were outweighed by disappointments among other individual holdings. Most notably, these included beverage distributor Central European Distribution, which was sold during the reporting period; electronic game retailer GameStop; steel fabricator AK Steel Holding; agricultural chemical producer Terra Industries; and industrial machinery makers Dycom Industries, Oshkosh and The Manitowoc Company, which was also sold during the reporting period. In each case, deteriorating business conditions drove the stock price steeply lower over the second half of the reporting period.

Reducing the Portfolio's Risk Profile

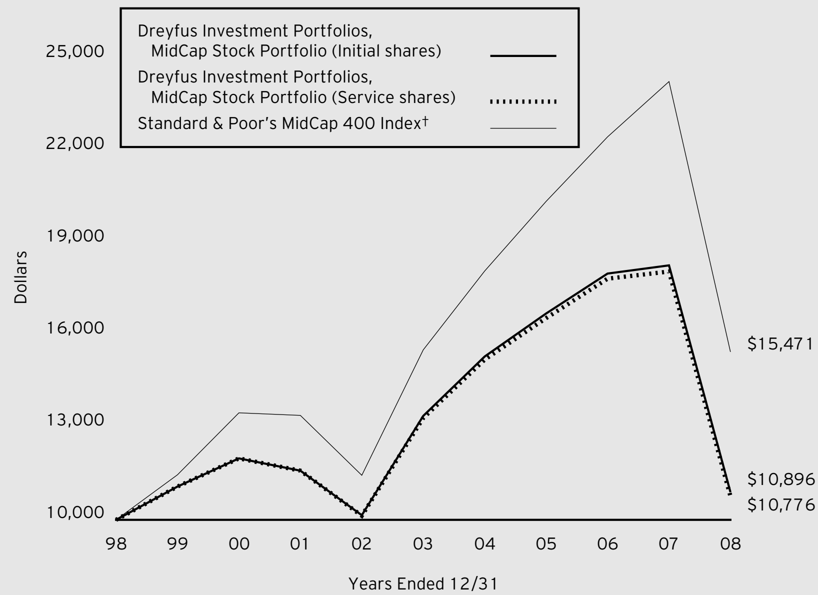
As of year-end, the U.S. economy has continued to weaken and the financial crisis has persisted. In light of these pressures, we have taken steps to reduce the portfolio's exposure to risk. Specifically, as of the end of the reporting period we have emphasized investments in companies with strong balance sheets and relatively little leverage. We also have trimmed some of the portfolio's larger holdings, thereby reducing exposure to a dip in any individual stock. At the same time, we remain fully committed to the portfolio's sector- and industry-neutral approach, relying on our time-tested, quantitative stock selection process to add value for investors.

January 15, 2009

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 May 1, 2009, 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.*



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 12/31/08*

	1 Year	5 Years	10 Years
Initial shares	**(40.42)%**	**(4.03)%**	**0.86%**
Service shares	**(40.44)%**	**(4.15)%**	**0.75%**

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 12/31/98 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, 2008 (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, 2008 to December 31, 2008. 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, 2008

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 3.39	$ 3.72
Ending value (after expenses)	$624.50	$624.60

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, 2008

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.22	$ 4.62
Ending value (after expenses)	$1,020.96	$1,020.56

† *Expenses are equal to the portfolio's annualized expense ratio of .83% for Initial shares and .91% for Service shares, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

December 31, 2008

Common Stocks—99.4%	Shares		Value ($)
Consumer Discretionary—11.9%			
Advance Auto Parts	41,800		1,406,570
Aeropostale	75,475	a,b	1,215,147
American Greetings, Cl. A	45,400		343,678
Brinker International	101,350		1,068,229
Callaway Golf	62,000	a	575,980
Dollar Tree	49,300	b	2,060,740
Family Dollar Stores	35,750		932,002
GameStop, Cl. A	26,400	b	571,824
Gentex	42,950		379,248
Hasbro	24,050		701,538
ITT Educational Services	23,100	a,b	2,194,038
John Wiley & Sons, Cl. A	16,200		576,396
Strayer Education	3,300		707,553
Tiffany & Co.	20,700	a	489,141
Timberland, Cl. A	11,300	b	130,515
Tupperware Brands	30,300		687,810
Urban Outfitters	96,600	b	1,447,068
Warnaco Group	56,750	b	1,114,003
			16,601,480
Consumer Staples—5.5%			
BJ's Wholesale Club	43,800	a,b	1,500,588
Central European Distribution	29,600	a,b	583,120
Church & Dwight	19,300		1,083,116
Hansen Natural	18,200	a,b	610,246
Hormel Foods	23,350	a	725,718
PepsiAmericas	41,100		836,796
Ralcorp Holdings	20,800	b	1,214,720
Universal	38,700		1,155,969
			7,710,273
Energy—7.3%			
Arch Coal	38,800		632,052
Cameron International	31,600	b	647,800
Cimarex Energy	56,550		1,514,409
Comstock Resources	16,700	b	789,075
Denbury Resources	36,400	b	397,488
Encore Acquisition	38,000	b	969,760

Common Stocks (continued)	Shares		Value ($)
Energy (continued)			
FMC	18,500		827,505
FMC Technologies	39,200	b	934,136
Helmerich & Payne	18,300		416,325
Oil States International	16,800	b	313,992
Patterson-UTI Energy	40,100		461,551
Southern Union	54,400		709,376
Southwestern Energy	52,000	b	1,506,440
			10,119,909
Financial—19.5%			
AMB Property	45,550	a	1,066,781
American Financial Group	69,975		1,601,028
Apartment Investment & Management, Cl. A	44,400		512,820
Camden Property Trust	18,700		586,058
Cincinnati Financial	40,800		1,186,056
FirstMerit	78,300	a	1,612,197
HCC Insurance Holdings	72,050		1,927,338
Hospitality Properties Trust	93,800	a	1,394,806
Host Hotels & Resorts	65,000		492,050
Hudson City Bancorp	115,500		1,843,380
Jones Lang LaSalle	27,300	a	756,210
Macerich	29,400	a	533,904
Nasdaq OMX Group	26,100	a,b	644,931
Nationwide Health Properties	28,000		804,160
Old Republic International	49,800		593,616
Raymond James Financial	85,300	a	1,461,189
Reinsurance Group of America	20,800	a	890,656
StanCorp Financial Group	65,000		2,715,050
SVB Financial Group	35,700	a,b	936,411
Synovus Financial	75,700	a	628,310
Transatlantic Holdings	12,000		480,720
UDR	90,000	a	1,241,100
Weingarten Realty Investors	69,800	a	1,444,162
Westamerica Bancorporation	35,300	a	1,805,595
			27,158,528

Common Stocks (continued)	Shares		Value ($)
Health Care—12.0%			
Dentsply International	54,800		1,547,552
Edwards Lifesciences	17,600	b	967,120
Express Scripts	9,800	b	538,804
Gen-Probe	23,900	b	1,023,876
Hologic	42,600	b	556,782
IDEXX Laboratories	21,200	a,b	764,896
Life Technologies	65,800	b	1,533,798
LifePoint Hospitals	46,100	a,b	1,052,924
Lincare Holdings	59,600	b	1,605,028
Medicis Pharmaceutical, Cl. A	34,550	a	480,245
Omnicare	29,800		827,248
Perrigo	21,500	a	694,665
STERIS	39,600		946,044
Techne	13,600		877,472
Universal Health Services, Cl. B	30,100		1,130,857
Varian Medical Systems	13,600	b	476,544
Vertex Pharmaceuticals	34,800	b	1,057,224
Warner Chilcott, Cl. A	46,300	b	671,350
			16,752,429
Industrial—14.8%			
AGCO	43,650	b	1,029,704
Brink's	30,700		825,216
Copart	29,300	b	796,667
Dun & Bradstreet	18,400		1,420,480
Dycom Industries	65,400	a,b	537,588
Fluor	16,500		740,355
Gardner Denver	49,800	b	1,162,332
GATX	34,700	a	1,074,659
Hubbell, Cl. B	51,550		1,684,654
Jacobs Engineering Group	21,800	b	1,048,580
JB Hunt Transport Services	20,400		535,908
Joy Global	22,700		519,603
Kansas City Southern	24,300	b	462,915
KBR	35,300		536,560

Common Stocks (continued)	Shares		Value ($)
Industrial (continued)			
Kennametal	20,000		443,800
Manpower	32,800		1,114,872
MPS Group	85,900	b	646,827
Nordson	30,000	a	968,700
Oshkosh	55,500		493,395
Owens Corning	22,000	b	380,600
Rockwell Automation	21,400		689,936
Southwest Airlines	41,500		357,730
SPX	35,550		1,441,553
Stericycle	11,600	b	604,128
Toro	22,100	a	729,300
Zebra Technologies, Cl. A	23,500	b	476,110
			20,722,172
Information Technology—13.0%			
ANSYS	30,100	b	839,489
Avnet	36,700	b	668,307
CommScope	58,900	b	915,306
Computer Sciences	31,600	b	1,110,424
Gartner	74,200	a,b	1,322,986
Global Payments	20,400		668,916
Harris	21,900		833,295
Ingram Micro, Cl. A	36,700	b	491,413
Integrated Device Technology	147,800	b	829,158
Intersil, Cl. A	91,900		844,561
Jabil Circuit	89,200		602,100
Mettler-Toledo International	12,700	b	855,980
NCR	64,700	b	914,858
Parametric Technology	84,400	b	1,067,660
Semtech	81,100	a,b	913,997
Sohu.com	10,000	a,b	473,400
Sybase	71,400	b	1,768,578
Synopsys	49,400	b	914,888
Tech Data	57,100	b	1,018,664

Common Stocks (continued)	Shares		Value ($)
Information Technology (continued)			
Western Digital	97,950	b	1,121,528
			18,175,508
Materials—6.1%			
Clearwater Paper	5,371	b	45,066
Crown Holdings	47,400	b	910,080
Lubrizol	19,100		695,049
Minerals Technologies	42,300	a	1,730,070
Olin	35,100		634,608
Owens-Illinois	45,000	b	1,229,850
Potlatch	18,800		488,988
Reliance Steel & Aluminum	27,700		552,338
Terra Industries	64,900		1,081,883
Worthington Industries	108,800	a	1,198,976
			8,566,908
Telecommunication Services—1.1%			
Telephone & Data Systems	48,800		**1,549,400**
Utilities—8.2%			
Alliant Energy	55,850		1,629,703
CenterPoint Energy	137,500		1,735,250
Hawaiian Electric Industries	79,200	a	1,753,488
Integrys Energy	18,800		808,024
NV Energy	210,800		2,084,812
Pepco Holdings	62,150		1,103,784
UGI	58,500		1,428,570
WGL Holdings	26,100	a	853,209
			11,396,840
Total Common Stocks (cost $199,095,389)			**138,753,447**

Other Investment—.5%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $717,000)	717,000	c	**717,000**

Investment of Cash Collateral for Securities Loaned—15.0%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $20,875,629)	20,875,629 [c]	**20,875,629**
Total Investments (cost $220,688,018)	**114.9%**	**160,346,076**
Liabilities, Less Cash and Receivables	**(14.9%)**	**(20,763,543)**
Net Assets	**100.0%**	**139,582,533**

[a] *All or a portion of these securities are on loan. At December 31, 2008, the total market value of the portfolio's securities on loan is $20,769,057 and the total market value of the collateral held by the portfolio is $20,875,629.*
[b] *Non-income producing security.*
[c] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Financial	19.5	Utilities	8.2
Money Market Investments	15.5	Energy	7.3
Industrial	14.8	Materials	6.1
Information Technology	13.0	Consumer Staples	5.5
Health Care	12.0	Telecommunication Services	1.1
Consumer Discretionary	11.9		**114.9**

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

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2008

	Cost	Value
Assets ($):		
Investments in securities-See Statement of Investments (including securities on loan, valued at $20,769,057)—Note 1(b):		
Unaffiliated issuers	199,095,389	138,753,447
Affiliated issuers	21,592,629	21,592,629
Cash		29,088
Dividends and interest receivable		363,580
Receivable for shares of Beneficial Interest subscribed		12,788
		160,751,532
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		84,518
Liability for securities on loan—Note 1(b)		20,875,629
Payable for shares of Beneficial Interest redeemed		145,620
Accrued expenses		63,232
		21,168,999
Net Assets ($)		**139,582,533**
Composition of Net Assets ($):		
Paid-in capital		246,164,786
Accumulated undistributed investment income—net		1,936,718
Accumulated net realized gain (loss) on investments		(48,177,029)
Accumulated net unrealized appreciation (depreciation) on investments		(60,341,942)
Net Assets ($)		**139,582,533**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	125,701,087	13,881,446
Shares Outstanding	16,008,198	1,775,634
Net Asset Value Per Share ($)	**7.85**	**7.82**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2008

Investment Income ($):	
Income:	
Cash dividends (net of $215 foreign taxes withheld at source):	
Unaffiliated issuers	3,364,862
Affiliated issuers	35,358
Income from securities lending	323,618
Total Income	**3,723,838**
Expenses:	
Investment advisory fee—Note 3(a)	1,783,209
Distribution fees—Note 3(b)	63,185
Professional fees	52,630
Prospectus and shareholders' reports	46,487
Custodian fees—Note 3(b)	26,997
Shareholder servicing costs—Note 3(b)	6,630
Trustees' fees and expenses—Note 3(c)	5,875
Interest expense—Note 2	837
Loan commitment fees—Note 2	358
Miscellaneous	17,054
Total Expenses	**2,003,262**
Less—reduction in management fee due to undertaking—Note 3(a)	(54,681)
Less—reduction in fees due to earnings credits—Note 1(b)	(91)
Net Expenses	**1,948,490**
Investment Income—Net	**1,775,348**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	(47,478,589)
Net unrealized appreciation (depreciation) on investments	(62,203,761)
Net Realized and Unrealized Gain (Loss) on Investments	**(109,682,350)**
Net (Decrease) in Net Assets Resulting from Operations	**(107,907,002)**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2008	2007
Operations ($):		
Investment income—net	1,775,348	2,678,677
Net realized gain (loss) on investments	(47,478,589)	37,593,511
Net unrealized appreciation (depreciation) on investments	(62,203,761)	(28,154,438)
Net Increase (Decrease) in Net Assets Resulting from Operations	**(107,907,002)**	**12,117,750**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,075,788)	(1,378,271)
Service Shares	(242,422)	(251,422)
Net realized gain on investments:		
Initial Shares	(33,614,382)	(39,159,213)
Service Shares	(4,819,634)	(9,828,752)
Total Dividends	**(40,752,226)**	**(50,617,658)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	12,611,543	18,299,663
Service Shares	1,952,930	4,556,463
Dividends reinvested:		
Initial Shares	35,690,170	40,537,484
Service Shares	5,062,056	10,080,174
Cost of shares redeemed:		
Initial Shares	(66,932,776)	(86,321,689)
Service Shares	(16,753,669)	(55,399,353)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**(28,369,746)**	**(68,247,258)**
Total Increase (Decrease) in Net Assets	**(177,028,974)**	**(106,747,166)**
Net Assets ($):		
Beginning of Period	316,611,507	423,358,673
End of Period	**139,582,533**	**316,611,507**
Undistributed investment income—net	1,936,718	2,471,963

	Year Ended December 31,	
	2008	2007
Capital Share Transactions:		
Initial Shares		
Shares sold	1,081,397	1,093,663
Shares issued for dividends reinvested	2,979,146	2,546,324
Shares redeemed	(5,935,391)	(5,194,938)
Net Increase (Decrease) in Shares Outstanding	**(1,874,848)**	**(1,554,951)**
Service Shares		
Shares sold	169,431	272,164
Shares issued for dividends reinvested	423,958	635,973
Shares redeemed	(1,342,551)	(3,308,648)
Net Increase (Decrease) in Shares Outstanding	**(749,162)**	**(2,400,511)**

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	2008	2007	2006	2005	2004
Per Share Data ($):					
Net asset value, beginning of period	15.52	17.39	19.15	17.62	15.82
Investment Operations:					
Investment income–net [a]	.09	.12	.08	.08	.07
Net realized and unrealized gain (loss) on investments	(5.63)	.19	1.39	1.53	2.22
Total from Investment Operations	(5.54)	.31	1.47	1.61	2.29
Distributions:					
Dividends from investment income–net	(.12)	(.07)	(.07)	(.01)	(.07)
Dividends from net realized gain on investments	(2.01)	(2.11)	(3.16)	(.07)	(.42)
Total Distributions	(2.13)	(2.18)	(3.23)	(.08)	(.49)
Net asset value, end of period	7.85	15.52	17.39	19.15	17.62
Total Return (%)	(40.42)	1.50	7.75	9.17	14.48
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.82	.80	.80	.79	.78
Ratio of net expenses to average net assets	.81	.80 [b]	.80 [b]	.79 [b]	.78 [b]
Ratio of net investment income to average net assets	.76	.73	.48	.43	.43
Portfolio Turnover Rate	86.74	116.83	149.02	99.27	79.75
Net Assets, end of period ($ x 1,000)	125,701	277,602	338,081	362,789	344,979

[a] *Based on average shares outstanding at each month end.*
[b] *Expense waivers and/or reimbursements amounted to less than .01%.*
See notes to financial statements.

	Year Ended December 31,				
Service Shares	2008	2007	2006	2005	2004
Per Share Data ($):					
Net asset value, beginning of period	15.45	17.31	19.06	17.57	15.77
Investment Operations:					
Investment income—net [a]	.08	.09	.06	.04	.04
Net realized and unrealized gain (loss) on investments	(5.60)	.21	1.39	1.52	2.21
Total from Investment Operations	(5.52)	.30	1.45	1.56	2.25
Distributions:					
Dividends from investment income—net	(.10)	(.05)	(.04)	–	(.03)
Dividends from net realized gain on investments	(2.01)	(2.11)	(3.16)	(.07)	(.42)
Total Distributions	(2.11)	(2.16)	(3.20)	(.07)	(.45)
Net asset value, end of period	7.82	15.45	17.31	19.06	17.57
Total Return (%)	(40.44)	1.39	7.68	8.93	14.23
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.06	1.05	1.05	1.04	1.03
Ratio of net expenses to average net assets	.90	.90	.91	1.00	1.00
Ratio of net investment income to average net assets	.62	.58	.37	.22	.22
Portfolio Turnover Rate	86.74	116.83	149.02	99.27	79.75
Net Assets, end of period ($ x 1,000)	13,881	39,009	85,277	89,264	81,680

[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"), a wholly-owned subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), serves as the portfolio's investment adviser.

Effective July 1, 2008, BNY Mellon reorganized and consolidated a number of its banking and trust company subsidiaries. As a result of the reorganization, any services previously provided to the portfolio by Mellon Bank, N.A. or Mellon Trust of New England, N.A. are now provided by The Bank of New York Mellon (formerly, The Bank of New York).

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 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 portfolio adopted 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.

Various inputs are used in determining the value of the portfolio's investments relating to FAS 157. These inputs are summarized in the three broad levels listed below.

Level 1—quoted prices in active markets for identical securities.

Level 2—other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3—significant unobservable inputs (including the portfolio's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2008 in valuing the portfolio's investments carried at fair value:

Valuation Inputs	Investments in Securities ($)	Other Financial Instruments ($)†
Level 1—Quoted Prices	160,346,076	0
Level 2—Other Significant Observable Inputs	0	0
Level 3—Significant Unobservable Inputs	0	0
Total	**160,346,076**	**0**

† *Other financial instruments include derivative instruments such as futures, forward currency exchange contracts and swap contracts, which are valued at the unrealized appreciation (depreciation) on the instrument and written options contracts which are shown at value.*

(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 arrangements with the custodian and cash management banks whereby the portfolio may receive earnings credits when positive cash balances are maintained, which are used to offset custody and cash management fees. For financial reporting purposes, the portfolio includes net earnings credits as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, 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. Collateral is 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, 2008, The Bank of New York Mellon earned $138,693 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.

As of and during the period ended December 31, 2008, the portfolio did not have any liabilities for any unrecognized tax positions. The portfolio recognizes interest and penalties, if any, related to unrecognized tax positions as income tax expense in the Statement of Operations. During the period, the portfolio did not incur any interest or penalties.

Each of the tax years in the four-year period ended December 31, 2008 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2008, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $1,936,718, accumulated capital losses $30,029,499 and unrealized depreciation $60,275,428. In addition, the portfolio had $18,214,044 of capital losses realized after October 31, 2008, which were deferred for tax purposes to the first day of the following fiscal year.

The accumulated capital loss carryover is available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to December 31, 2008. If not applied, the carryover expires in fiscal 2016.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2008 and December 31, 2007 were as follows: ordinary income $18,327,589 and $10,308,755 and long-term capital gains $22,424,637 and $40,308,903, respectively.

During the period ended December 31, 2008, as a result of permanent book to tax differences, primarily due to the tax treatment for dividend reclassification, the portfolio increased accumulated undistributed investment income-net by $7,617 and decreased 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 Lines of Credit:

Prior to May 1, 2008, the portfolio participated with other Dreyfus-managed funds in a $100 million unsecured line of credit. Effective May 1, 2008, the portfolio participates with other Dreyfus-managed funds in a $300 million unsecured line of credit primarily to be utilized for temporary or emergency purposes, including the financing of redemptions. The terms of the line of credit agreement limit the amount of individual fund borrowings. Interest is charged to the portfolio based on prevailing market rates in effect at the time of borrowing. Effective October 15, 2008, in connection therewith, the portfolio has agreed to pay commitment fees on its pro rata portion of the unsecured line of credit.

The average daily amount of borrowings outstanding under the line of credit during the period ended December 31, 2008, was approximately \$27,800, with a related weighted average annualized interest rate of 3.01%.

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, 2008 to May 1, 2009, 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 such class. During the period ended December 31, 2008, the Manager waived receipt of fees of \$54,681, pursuant to the undertaking.

(b) Under the Distribution Plan (the "Plan") adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing their shares, for servicing and/or maintaining Service shares shareholder accounts and for advertising and marketing for Service shares. The Plan provides for payments to be made at an annual rate of .25% of 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, 2008, Service shares were charged \$63,185 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, 2008, the portfolio was charged $848 pursuant to the transfer agency agreement.

The portfolio compensates The Bank of New York Mellon under a cash management agreement for performing cash management services related to portfolio subscriptions and redemptions. During the period ended December 31, 2008, the portfolio was charged $91 pursuant to the cash management agreement.

The portfolio compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the portfolio. During the period ended December 31, 2008, the portfolio was charged $26,997 pursuant to the custody agreement.

During the period ended December 31, 2008, the portfolio was charged $5,403 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 $85,680, Rule 12b-1 distribution plan fees $2,820, custodian fees $8,500, chief compliance officer fees $1,197 and transfer agency per account fees $155, which are offset against an expense reimbursement currently in effect in the amount of $13,834.

(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, 2008, amounted to $207,374,292 and $270,909,175, respectively.

At December 31, 2008, the cost of investments for federal income tax purposes was $220,621,504; accordingly, accumulated net unrealized depreciation on investments was $60,275,428, consisting of $2,712,656 gross unrealized appreciation and $62,988,084 gross unrealized depreciation.

In March 2008, the Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("FAS 161"). FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The application of FAS 161 is required for fiscal years and interim periods beginning after November 15, 2008. At this time, management is evaluating the implications of FAS 161 and its impact on the financial statements and the accompanying notes has not yet been determined.

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 series comprising Dreyfus Investment Portfolios) as of December 31, 2008, 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, 2008 by correspondence with the custodian and others. 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, 2008, 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 10, 2009

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the portfolio hereby designates $1.1720 per share as a long-term capital gain distribution and $.8360 per share as a short-term capital gain distribution paid on March 28, 2008 and also the portfolio hereby designates 30.17% of the ordinary dividends paid during the fiscal year ended December 31, 2008 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in January 2009 of the percentage applicable to the preparation of their 2008 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 16-17, 2008, 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.

<u>Analysis of Nature, Extent and Quality of Services Provided to the Portfolio.</u> 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 its 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 Manager also provided 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. The Board also considered the Manager's brokerage policies and practices, the standards applied in seeking best execution and the Manager's policies and practices regarding soft dollars.

Comparative Analysis of the Portfolio's Performance, Investment Advisory Fee and Expense Ratio. The Board members reviewed the portfolio's performance for the one-, three-, five- and ten-year periods ended May 31, 2008, and compared the portfolio's performance to the performance of a group of comparable mid-cap core funds underlying variable insurance products (the "Performance Group") and to a larger universe of funds consisting of all mid-cap core funds underlying variable insurance products (the "Performance Universe") selected and provided by Lipper, Inc., an independent provider of investment company data. The Board was provided with a description of the methodology Lipper used to select the Performance Group and Performance Universe, as well as the Expense Group and Expense Universe (discussed below). The Board members noted that they also had received and discussed with management information at periodic intervals comparing the portfolio's performance to that of its benchmark index. The Board members discussed the results of the comparisons and noted that the portfolio's total return performance for its Initial shares was above the median in the second quartile of the Performance Group for the one-year period, but below the median in the fourth quartile of the Performance Group for the three-, five- and ten-year periods ended May 31, 2008, and slightly below the median in the third quartile of the Performance Universe for the one-year period and below the median in the fourth quartile of the Performance Universe for the three-, five- and ten-year periods ended May 31, 2008. The Board members noted that a new portfolio management team assumed responsibility for managing the portfolio in September 2007.

The Board members also discussed the portfolio's investment advisory fee and expense ratio and reviewed the range of advisory fees and expense ratios as compared to a group of comparable mid-cap core funds underlying variable insurance products (the "Expense Group") and a broader group of funds consisting of all mid-cap core funds underlying variable insurance products (the "Expense Universe"), each selected and provided by Lipper. The Board 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 quartile (was among the lowest) of the Expense Group and the 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 also considered the current fee waiver and expense reimbursement arrangement undertaken by the Manager.

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 underlying variable insurance products 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 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 are adequate and appropriate.
- The Board was generally satisfied with the portfolio's recent performance and the Manager's efforts to continue to improve performance going forward.

- The Board concluded that the fee paid by the portfolio to the Manager was reasonable in light of the services provided, 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 the Manager from its relationship with the portfolio.
- 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 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 Investment Advisory Agreement was in the best interests of the portfolio and its shareholders.

BOARD MEMBERS INFORMATION (Unaudited)

Joseph S. DiMartino (65)
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: 191

Clifford L. Alexander, Jr. (75)
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: 55

David W. Burke (72)
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: 92

Whitney I. Gerard (74)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Partner of Chadbourne & Parke LLP

No. of Portfolios for which Board Member Serves: 31

George L. Perry (74)
Board Member (2003)

Principal Occupation During Past 5 Years:
• Economist and Senior Fellow at Brookings Institution

No. of Portfolios for which Board Member Serves: 31

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 77 investment companies (comprised of 180 portfolios) managed by the Manager. He is 60 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 77 investment companies (comprised of 180 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 61 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.

Assistant General Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since October 1991.

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

Senior Counsel of BNY Mellon and Secretary of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since December 1996.

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

Senior Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since October 1988.

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

Senior Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 47 years old and has been an employee of the Manager since June 2000.

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

Assistant General Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. She is 46 years old and has been an employee of the Manager since February 1984.

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

Managing Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since February 1991.

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

Managing Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 56 years old and has been an employee of the Manager since May 1986.

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

Managing Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 43 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 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since April 1985.

RICHARD CASSARO, Assistant Treasurer since January 2008.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since September 1982.

GAVIN C. REILLY, Assistant Treasurer since December 2005.

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since April 1991.

ROBERT ROBOL, Assistant Treasurer since August 2003.

Senior Accounting Manager – Fixed Income Funds of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since October 1988.

ROBERT SALVIOLO, Assistant Treasurer since July 2007.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 41 years old and has been an employee of the Manager since June 1989.

ROBERT SVAGNA, Assistant Treasurer since August 2005.

Senior Accounting Manager – Equity Funds of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 41 years old and has been an employee of the Manager since November 1990.

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

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (78 investment companies, comprised of 201 portfolios). From November 2001 through March 2004, Mr. Connolly was first Vice-President, Mutual Fund Servicing for Mellon Global Securities Services. In that capacity, Mr. Connolly was responsible for managing Mellon's Custody, Fund Accounting and Fund Administration services to third-party mutual fund clients. He is 51 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 74 investment companies (comprised of 197 portfolios) managed by the Manager. He is 38 years old and has been an employee of the Distributor since October 1998.

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

The Bank of New York Mellon
One Wall Street
New York, NY 10286

Transfer Agent & Dividend Disbursing Agent

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

Distributor

MBSC Securities Corporation
200 Park Avenue
New York, NY 10166

Telephone 1-800-554-4611 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 1-800-SEC-0330.

A description of the policies and procedures that the portfolio uses to determine how to vote proxies relating to portfolio securities, and information regarding how the portfolio voted these proxies for the 12-month period ended June 30, 2008, 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.

0174AR1208

The Dreyfus Socially Responsible Growth Fund, Inc.

ANNUAL REPORT December 31, 2008

BNY MELLON
ASSET MANAGEMENT

Dreyfus

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

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THE FUND

FOR MORE INFORMATION

A LETTER FROM THE CEO

Dear Shareholder:

We present to you this annual report for The Dreyfus Socially Responsible Growth Fund, Inc., covering the 12-month period from January 1, 2008, through December 31, 2008.

2008 was the most difficult year in decades for the economy and stock market. A credit crunch that originated in 2007 in the U.S. sub-prime mortgage market exploded in mid-2008 into a global financial crisis, resulting in the failures of major financial institutions, a deep and prolonged recession and lower investment values across a broad range of asset classes. Governments and regulators throughout the world moved aggressively to curtail the damage, implementing unprecedented reductions of short-term interest rates, massive injections of liquidity into the banking system, government bailouts of struggling companies and plans for massive economic stimulus programs.

Although we expect the U.S. and global economies to remain weak until longstanding imbalances have worked their way out of the system, the financial markets currently appear to have priced in investors' generally low expectations. In previous recessions, however, the markets have tended to anticipate economic improvement before it occurs, potentially leading to major rallies when few expected them. That's why it makes sense to remain disciplined, maintain a long-term perspective and adopt a consistent asset allocation strategy that reflects one's future goals and attitudes toward risk. As always, we urge you to consult with your financial advisor, who can recommend the course of action that is right for you.

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,

Jonathan R. Baum
Chief Executive Officer
The Dreyfus Corporation
January 15, 2009

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2008, through December 31, 2008, as provided by John O'Toole and Jocelin Reed, Portfolio Managers

Fund and Market Performance Overview

For the 12-month period ended December 31, 2008, The Dreyfus Socially Responsible Growth Fund's Initial shares produced a total return of –34.42%, and the fund's Service shares produced a total return of –34.58%.[1] In comparison, the fund's benchmark, the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index"), produced a total return of –36.99% for the same period.[2]

A deepening recession and an expanding financial crisis produced the steepest one-year percentage drop in the S&P 500 Index since the 1930s. Declining equity prices took a substantial toll on the fund's performance as well. However, relatively good returns in the hard-hit financial sector enabled the fund to produce higher returns than its benchmark.

The Fund's Investment Approach

The fund seeks capital growth, with current income as a secondary objective. To pursue these goals, the fund invests 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.

Limited Exposure to Hard-Hit Financial Stocks

During the reporting period, every market sector in the S&P 500 Index experienced double-digit declines amid a slowing U.S. economy and intensifying global financial crisis. The S&P 500 Index's financial sector was amongst the hardest hit, with its market capitalization shrinking by more than half. Several major investment banks and lending institutions were driven out of business or to the brink of bankruptcy by their exposure to troubled securitized mortgage instruments.

The fund held underweighted exposure to the troubled financial sector overall and held relatively few positions among the individual banks, insurers and mortgage agencies that were at the epicenter of the credit crisis. Among insurers, for example, the fund steered away from life insurance companies burdened by long-term annuity-related liabilities. Instead, we emphasized property and casualty insurers with more modest exposure to securitized mortgage instruments, such as The Travelers Companies, Inc. and The Chubb Corporation.

The fund also outperformed its benchmark in the industrials sector. Relatively strong stock selections, such as United Technologies and Emerson Electric, experienced milder declines than the benchmark's industrials component. The fund's relatively strong performers in other sectors included beverage producer Hansen Natural Corporation, management consulting firm Accenture, and biotechnology giants Amgen and Genzyme.

Disappointing Returns Among Energy Stocks

The fund lost ground relative to its benchmark in the energy sector, where oil services providers, such as ENSCO International and Noble, and natural gas oriented producers, such as EnCana and Nexen, suffered when commodity prices declined over the second half of 2008. Weak holdings in other areas included Internet services provider Google and media giant News Corporation, which were hurt by declining advertising revenue. News Corporation was sold during the reporting period.

Positioned for a Rebound in Growth Stocks

We believe that our growth-oriented investment approach positions the fund to benefit from an eventual economic recovery. Historically, such recoveries often have been led by growth-oriented equities. At the same time, in light of current economic pressures, we have focused on companies with earnings prospects in which we have a high level of confidence. As of year-end, we have found a number of such investment opportunities in the information technology and, to a lesser extent, consumer discretionary sectors. We currently see fewer opportunities among financial and energy-related stocks.

A Wide Range of Socially Responsible Investment Opportunities

Two recently established positions in the energy sector illustrate the breadth of companies that meet the fund's socially responsible investment criteria. One, electrical system and component manufacturer Woodward Governor, produces power generation equipment, including systems designed to capitalize on alternative energy sources and enhance efficiency. The other, utility WGL Holdings, is distinguished by its reliance on relatively clean-burning natural gas, its efforts to improve energy efficiency and its willingness to explore alternative energy sources, such as wind. While these two companies are very different entities, both exhibit strongly positive environmental profiles, and both have produced sustainable earnings growth through many cycles, making them attractive investments in today's economic climate.

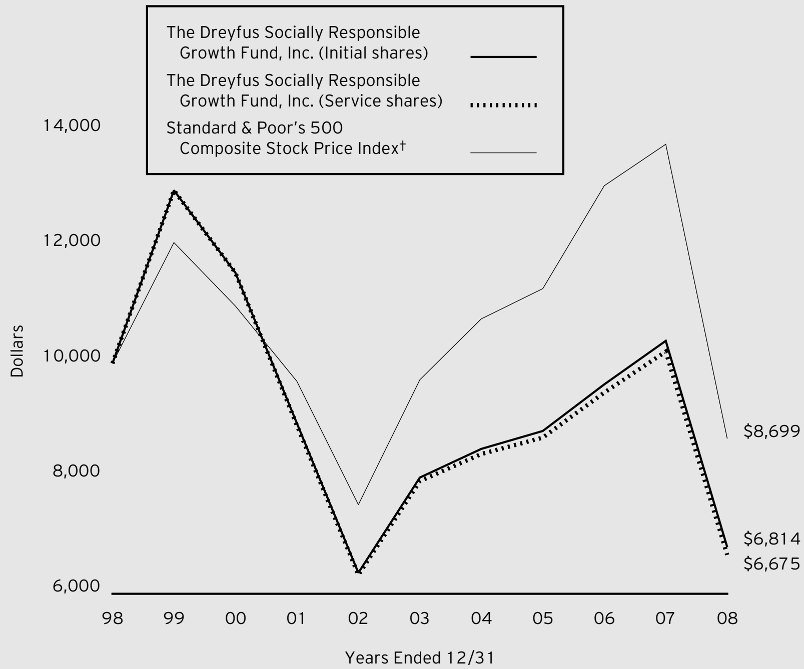
For further information regarding the fund's approach to socially responsible investing, please consult the fund's prospectus.

January 15, 2009

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 12/31/08*

	1 Year	5 Years	10 Years
Initial shares	**(34.42)%**	**(3.21)%**	**(3.76)%**
Service shares	**(34.58)%**	**(3.45)%**	**(3.96)%**

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 12/31/98 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, 2008 (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, 2008 to December 31, 2008. 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, 2008

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 3.79	$ 4.86
Ending value (after expenses)	$713.60	$712.60

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended December 31, 2008

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.47	$ 5.74
Ending value (after expenses)	$1,020.71	$1,019.46

† *Expenses are equal to the fund's annualized expense ratio of .88% for Initial shares and 1.13% for Service shares, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

December 31, 2008

Common Stocks—99.5%	Shares		Value ($)
Computers—6.4%			
Apple	47,050	a	4,015,718
International Business Machines	96,200		8,096,192
			12,111,910
Consumer Discretionary—9.2%			
Choice Hotels International	55,325	b	1,663,069
Coach	88,400	a	1,836,068
DeVry	24,850		1,426,638
Gap	168,725		2,259,228
McDonald's	39,550		2,459,614
NIKE, Cl. B	52,275		2,666,025
TJX Cos.	76,650		1,576,690
Walt Disney	122,100		2,770,449
Weight Watchers International	28,500		838,470
			17,496,251
Consumer Staples—12.8%			
Bare Escentuals	44,050	a	230,381
Costco Wholesale	71,575		3,757,687
Hansen Natural	77,450	a,b	2,596,898
Kimberly-Clark	59,950		3,161,763
PepsiCo	125,175		6,855,835
Procter & Gamble	100,575		6,217,546
SYSCO	63,825		1,464,145
			24,284,255
Energy—8.5%			
Anadarko Petroleum	30,175		1,163,246
Apache	18,000		1,341,540
Cimarex Energy	54,825		1,468,213
EnCana	22,550	b	1,048,124
ENSCO International	47,825		1,357,752
Nexen	94,025	b	1,652,959
Noble	100,625		2,222,806
Pioneer Natural Resources	67,650		1,094,577
Schlumberger	31,750		1,343,977
SEACOR Holdings	26,850	a,b	1,789,552
Talisman Energy	177,000	b	1,768,230
			16,250,976

Common Stocks (continued)	Shares		Value ($)
Financial—6.3%			
Aflac	35,600		1,631,904
Bank of Hawaii	22,100		998,257
BlackRock	15,450	b	2,072,617
Chubb	41,125		2,097,375
Cullen/Frost Bankers	17,400		881,832
Dun & Bradstreet	18,750		1,447,500
Travelers Cos.	43,500		1,966,200
Wells Fargo & Co.	31,950		941,886
			12,037,571
Health Care—14.9%			
Aetna	71,075		2,025,637
Alcon	15,025		1,340,080
Amgen	77,050	a	4,449,637
AstraZeneca, ADR	43,100	b	1,768,393
Becton, Dickinson & Co.	58,525		4,002,525
Genzyme	66,150	a	4,390,375
Johnson & Johnson	79,000		4,726,570
Novartis, ADR	23,175		1,153,188
WellPoint	78,050	a	3,288,246
Zimmer Holdings	29,625	a	1,197,443
			28,342,094
Industrial—14.0%			
3M	47,450		2,730,273
Danaher	26,500		1,500,165
Donaldson	23,100	b	777,315
Ecolab	20,000		703,000
Emerson Electric	163,650		5,991,227
Equifax	39,025		1,034,943
Fluor	25,150		1,128,481
Herman Miller	87,250		1,136,868
Nordson	24,750	b	799,178
Rockwell Collins	66,950		2,617,076
Ryder System	21,075		817,289
United Technologies	99,825		5,350,620
Wabtec	22,750	b	904,313

Common Stocks (continued)	Shares		Value ($)
Industrial (continued)			
Woodward Governor	43,975		1,012,305
			26,503,053
Materials—3.5%			
Air Products & Chemicals	36,250		1,822,288
Molex	75,900		1,099,791
Nucor	36,625		1,692,075
Praxair	33,000		1,958,880
			6,573,034
Technology—20.3%			
Accenture, Cl. A	86,375		2,832,236
Applied Materials	151,650		1,536,215
Cisco Systems	250,650	a	4,085,595
DreamWorks Animation SKG, Cl. A	54,000	a	1,364,040
EMC	172,600	a	1,807,122
Google, Cl. A	12,175	a	3,745,639
Intel	118,925		1,743,441
MasterCard, Cl. A	13,125	b	1,875,956
Microsoft	401,650		7,808,076
National Semiconductor	107,200		1,079,504
Oracle	88,500	a	1,569,105
QUALCOMM	104,350		3,738,861
STMicroelectronics (New York Shares)	84,625		562,756
Symantec	79,050	a	1,068,756
Texas Instruments	193,825		3,008,164
Xerox	91,250		727,263
			38,552,729
Telecommunication Services—.8%			
Windstream	158,600		**1,459,120**
Utilities—2.8%			
Pinnacle West Capital	50,650		1,627,385
Sempra Energy	64,450		2,747,504
WGL Holdings	27,175		888,351
			5,263,240
Total Common Stocks (cost $234,527,597)			**188,874,233**

Other Investment—.2%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Preferred Plus Money Market Fund (cost $446,000)	446,000 [c]	**446,000**
Investment of Cash Collateral for Securities Loaned—5.6%		
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Plus Fund (cost $10,536,779)	10,536,779 [c]	**10,536,779**
Total Investments (cost $245,510,376)	**105.3%**	**199,857,012**
Liabilities, Less Cash and Receivables	**(5.3%)**	**(10,036,096)**
Net Assets	**100.0%**	**189,820,916**

ADR—American Depository Receipts

[a] *Non-income producing security.*

[b] *All or a portion of these securities are on loan. At December 31, 2008, the total market value of the fund's securities on loan is $10,262,923 and the total market value of the collateral held by the fund is $10,536,779.*

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Technology	20.3	Financial	6.3
Health Care	14.9	Money Market Investments	5.8
Industrial	14.0	Materials	3.5
Consumer Staples	12.8	Utilities	2.8
Consumer Discretionary	9.2	Telecommunication Services	.8
Energy	8.5		
Computers	6.4		**105.3**

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2008

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $10,262,923)—Note 1(b):		
Unaffiliated issuers	234,527,597	188,874,233
Affiliated issuers	10,982,779	10,982,779
Cash		63,205
Receivable for investment securities sold		392,020
Dividends and interest receivable		377,512
Receivable for shares of Common Stock subscribed		20,390
		200,710,139
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		137,285
Liability for securities on loan—Note 1(b)		10,536,779
Payable for shares of Common Stock redeemed		103,055
Accrued expenses		112,104
		10,889,223
Net Assets ($)		**189,820,916**
Composition of Net Assets ($):		
Paid-in capital		418,205,363
Accumulated undistributed investment income—net		1,921,172
Accumulated net realized gain (loss) on investments		(184,652,255)
Accumulated net unrealized appreciation (depreciation) on investments		(45,653,364)
Net Assets ($)		**189,820,916**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	184,812,857	5,008,059
Shares Outstanding	9,306,001	254,080
Net Asset Value Per Share ($)	**19.86**	**19.71**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2008

Investment Income ($):	
Income:	
Cash dividends (net of $45,595 foreign taxes withheld at source):	
Unaffiliated issuers	4,119,958
Affiliated issuers	27,512
Income from securities lending	82,899
Total Income	**4,230,369**
Expenses:	
Investment advisory fee—Note 3(a)	2,020,470
Professional fees	108,664
Prospectus and shareholders' reports	72,188
Custodian fees—Note 3(c)	31,887
Shareholder servicing costs—Note 3(c)	24,441
Distribution fees—Note 3(b)	17,789
Directors' fees and expenses—Note 3(d)	5,461
Loan commitment fees—Note 2	4,128
Interest expense—Note 2	379
Miscellaneous	21,092
Total Expenses	**2,306,499**
Less—reduction in fees due to earnings credits—Note 1(b)	(150)
Net Expenses	**2,306,349**
Investment Income—Net	**1,924,020**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	(5,535,657)
Net unrealized appreciation (depreciation) on investments	(103,155,450)
Net Realized and Unrealized Gain (Loss) on Investments	**(108,691,107)**
Net (Decrease) in Net Assets Resulting from Operations	**(106,767,087)**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2008	2007
Operations ($):		
Investment income—net	1,924,020	2,101,645
Net realized gain (loss) on investments	(5,535,657)	11,483,091
Net unrealized appreciation (depreciation) on investments	(103,155,450)	14,439,012
Net Increase (Decrease) in Net Assets Resulting from Operations	**(106,767,087)**	**28,023,748**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,021,732)	(1,943,866)
Service Shares	(31,418)	(31,270)
Total Dividends	**(2,053,150)**	**(1,975,136)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	12,630,551	12,658,980
Service Shares	811,221	762,545
Dividends reinvested:		
Initial Shares	2,021,732	1,943,866
Service Shares	31,418	31,270
Cost of shares redeemed:		
Initial Shares	(55,187,880)	(83,100,413)
Service Shares	(1,903,000)	(4,016,664)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**(41,595,958)**	**(71,720,416)**
Total Increase (Decrease) in Net Assets	**(150,416,195)**	**(45,671,804)**
Net Assets ($):		
Beginning of Period	340,237,111	385,908,915
End of Period	**189,820,916**	**340,237,111**
Undistributed investment income—net	1,921,172	2,060,658

	Year Ended December 31,	
	2008	2007
Capital Share Transactions:		
Initial Shares		
Shares sold	484,731	425,875
Shares issued for dividends reinvested	73,812	67,825
Shares redeemed	(2,115,136)	(2,796,135)
Net Increase (Decrease) in Shares Outstanding	**(1,556,593)**	**(2,302,435)**
Service Shares		
Shares sold	30,883	25,792
Shares issued for dividends reinvested	1,154	1,098
Shares redeemed	(72,946)	(134,965)
Net Increase (Decrease) in Shares Outstanding	**(40,909)**	**(108,075)**

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	2008	2007	2006	2005	2004
Per Share Data ($):					
Net asset value, beginning of period	30.50	28.45	26.08	25.17	23.79
Investment Operations:					
Investment income—net [a]	.19	.17	.13	.03	.09
Net realized and unrealized gain (loss) on investments	(10.64)	2.04	2.27	.88	1.39
Total from Investment Operations	(10.45)	2.21	2.40	.91	1.48
Distributions:					
Dividends from investment income—net	(.19)	(.16)	(.03)	–	(.10)
Net asset value, end of period	19.86	30.50	28.45	26.08	25.17
Total Return (%)	(34.42)	7.78	9.20	3.62	6.21
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.85	.82	.83	.81	.82
Ratio of net expenses to average net assets	.85[b]	.82	.83	.81	.82
Ratio of net investment income to average net assets	.72	.58	.50	.10	.38
Portfolio Turnover Rate	31.74	22.71	32.19	94.99	55.54
Net Assets, end of period ($ x 1,000)	184,813	331,313	374,537	418,916	488,994

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

[b] *Expense waivers and/or reimbursements amounted to less than .01%.*

See notes to financial statements.

	Year Ended December 31,				
Service Shares	2008	2007	2006	2005	2004
Per Share Data ($):					
Net asset value, beginning of period	30.25	28.21	25.90	25.06	23.69
Investment Operations:					
Investment income (loss)—net [a]	.12	.10	.07	(.04)	.04
Net realized and unrealized gain (loss) on investments	(10.55)	2.02	2.24	.88	1.37
Total from Investment Operations	(10.43)	2.12	2.31	.84	1.41
Distributions:					
Dividends from investment income—net	(.11)	(.08)	–	–	(.04)
Net asset value, end of period	19.71	30.25	28.21	25.90	25.06
Total Return (%)	(34.58)	7.49	8.96	3.35	5.94
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.10	1.07	1.08	1.06	1.06
Ratio of net expenses to average net assets	1.10 [b]	1.07	1.08	1.06	1.06
Ratio of net investment income (loss) to average net assets	.47	.33	.25	(.15)	.17
Portfolio Turnover Rate	31.74	22.71	32.19	94.99	55.54
Net Assets, end of period ($ x 1,000)	5,008	8,924	11,372	12,311	13,492

[a] *Based on average shares outstanding at each month end.*
[b] *Expense waivers and/or reimbursements amounted to less than .01%.*
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"), a wholly-owned subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), serves as the fund's investment adviser.

Effective July 1, 2008, BNY Mellon reorganized and consolidated a number of its banking and trust company subsidiaries. As a result of the reorganization, any services previously provided to the fund by Mellon Bank, N.A. or Mellon Trust of New England, N.A. are now provided by The Bank of New York Mellon (formerly, The Bank of New York).

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'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 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 fund adopted 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.

Various inputs are used in determining the value of the fund's investments relating to FAS 157. These inputs are summarized in the three broad levels listed below.

Level 1—quoted prices in active markets for identical securities.

Level 2—other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3—significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2008 in valuing the fund's investments carried at fair value:

Valuation Inputs	Investments in Securities ($)	Other Financial Instruments ($)†
Level 1–Quoted Prices	199,857,012	0
Level 2–Other Significant Observable Inputs	0	0
Level 3–Significant Unobservable Inputs	0	0
Total	**199,857,012**	**0**

† *Other financial instruments include derivative instruments such as futures, forward currency exchange contracts and swap contracts, which are valued at the unrealized appreciation (depreciation) on the instrument and written options contracts which are shown at value.*

(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 arrangements with the custodian and cash management banks whereby the fund may receive earnings credits when positive cash balances are maintained, which are used to offset custody and cash management fees. For financial reporting purposes, the fund includes net earnings credits as an expense offset in the Statement of Operations.

Pursuant to a securities lending agreement with The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, the fund may lend securities to qualified institutions. It is the fund's policy that, at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan will be maintained at all times. Collateral is 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, 2008, The Bank of New York Mellon earned $35,528 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.

As of and during the period ended December 31, 2008, the fund did not have any liabilities for any unrecognized tax positions. The fund recognizes interest and penalties, if any, related to unrecognized tax positions as income tax expense in the Statement of Operations. During the period, the fund did not incur any interest or penalties.

Each of the tax years in the four-year period ended December 31, 2008 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2008, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $1,921,172, accumulated capital losses $173,924,909 and unrealized depreciation $45,672,254. In addition, the fund had $10,708,456 of capital losses realized after October 31, 2008 which were deferred for tax purposes to the first day of the following fiscal year.

The accumulated capital loss carryover is available for federal income tax purposes to be applied against future net securities profits, if any, realized subsequent to December 31, 2008. If not applied, $50,319,693 of the carryover expires in fiscal 2009, $103,833,733 expires in fiscal 2010 and $19,771,483 expires in fiscal 2011.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2008 and December 31, 2007 were as follows: ordinary income $2,053,150 and $1,975,136, respectively.

During the period ended December 31, 2008, as a result of permanent book to tax differences, primarily due to the tax treatment for real estate investment trusts, the fund decreased accumulated undistributed investment income-net by $10,356 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 Lines of Credit:

Prior to October 15, 2008, the fund participated with other Dreyfus-managed funds in a $350 million redemption credit facility. Effective October 15, 2008, the fund participates with other Dreyfus-managed funds in a $145 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 borrowings outstanding under the Facilities during the period ended December 31, 2008 was approximately $15,500, with a related weighted average annualized interest rate of 2.44%.

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, 2008, Service shares were charged $17,789 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 the 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, 2008, Initial shares were charged $15,416 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, 2008, the fund was charged $1,173 pursuant to the transfer agency agreement.

The fund compensates The Bank of New York Mellon under a cash management agreement for performing cash management services related to fund subscriptions and redemptions. During the period ended December 31, 2008, the fund was charged $150 pursuant to the cash management agreement.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. During the period ended December 31, 2008, the fund was charged $31,887 pursuant to the custody agreement.

During the period ended December 31, 2008, the fund was charged $5,403 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 $116,918, Rule 12b-1 distribution plan fees $1,028, shareholder services plan fees $8,041, custodian fees $9,911, chief compliance officer fees $1,197 and transfer agency per account fees $190.

(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, 2008, amounted to $85,865,146 and $127,234,886, respectively.

At December 31, 2008, the cost of investments for federal income tax purposes was $245,529,266; accordingly, accumulated net unrealized depreciation on investments was $45,672,254, consisting of $5,860,469 gross unrealized appreciation and $51,532,723 gross unrealized depreciation.

In March 2008, the Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("FAS 161"). FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The application of FAS 161 is required for fiscal years and interim periods beginning after November 15, 2008. At this time, management is evaluating the implications of FAS 161 and its impact on the financial statements and the accompanying notes has not yet been determined.

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, 2008, 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, 2008 by correspondence with the custodian and others. 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, 2008, 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 10, 2009

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, 2008 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in January 2009 of the percentage applicable to the preparation of their 2008 income tax returns.

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

At a meeting of the Board of Directors of the fund held on July 16-17, 2008, 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 its 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 those of the fund. The Manager also provided 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 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 quartile of Expense Group I, in the second quartile of Expense Group II and Expense Universe I and in the first quartile of Expense Universe II.

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 below the medians of Performance Group I and Performance Universe I for the reported periods ended May 31, 2008. The Board also noted that the performance of the fund's Initial shares was at or below the medians of Performance Group II and Performance Universe II for each reported period.

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 Management Agreement. Based on the 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 by the Manager were adequate and appropriate.
- The Board was satisfied with the fund's overall performance.
- The Board concluded that the fee paid by the fund to the Manager 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 Management Agreement was in the best interests of the fund and its shareholders.

Joseph S. DiMartino (65)
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: 191

Clifford L. Alexander, Jr. (75)
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: 55

David W. Burke (72)
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: 92

Whitney I. Gerard (74)
Board Member (2003)

Principal Occupation During Past 5 Years:

• Partner of Chadbourne & Parke LLP

No. of Portfolios for which Board Member Serves: 31

George L. Perry (74)
Board Member (2003)

Principal Occupation During Past 5 Years:

• Economist and Senior Fellow at Brookings Institution

No. of Portfolios for which Board Member Serves: 31

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 77 investment companies (comprised of 180 portfolios) managed by the Manager. He is 60 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 77 investment companies (comprised of 180 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 61 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.

Assistant General Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since October 1991.

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

Senior Counsel of BNY Mellon and Secretary of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since December 1996.

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

Senior Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since October 1988.

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

Senior Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 47 years old and has been an employee of the Manager since June 2000.

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

Assistant General Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. She is 46 years old and has been an employee of the Manager since February 1984.

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

Managing Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since February 1991.

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

Managing Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 56 years old and has been an employee of the Manager since May 1986.

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

Managing Counsel of BNY Mellon, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 43 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 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since April 1985.

RICHARD CASSARO, Assistant Treasurer since January 2008.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since September 1982.

GAVIN C. REILLY, Assistant Treasurer since December 2005.

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since April 1991.

ROBERT ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager – Fixed Income Funds of the Manager, and an officer of 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 44 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 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 41 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 78 investment companies (comprised of 201 portfolios) managed by the Manager. He is 41 years old and has been an employee of the Manager since November 1990.

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

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (78 investment companies, comprised of 201 portfolios). From November 2001 through March 2004, Mr. Connolly was first Vice-President, Mutual Fund Servicing for Mellon Global Securities Services. In that capacity, Mr. Connolly was responsible for managing Mellon's Custody, Fund Accounting and Fund Administration services to third-party mutual fund clients. He is 51 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 74 investment companies (comprised of 197 portfolios) managed by the Manager. He is 38 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

The Bank of New York Mellon
One Wall Street
New York, NY 10286

Transfer Agent & Dividend Disbursing Agent

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

Distributor

MBSC Securities Corporation
200 Park Avenue
New York, NY 10166

Telephone 1-800-554-4611 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 1-800-SEC-0330.

A description of the policies and procedures that the fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the fund voted these proxies for the 12-month period ended June 30, 2008, 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, 2008

ANNUAL REPORT

DWS INVESTMENTS VIT FUNDS

DWS Equity 500 Index VIP

RESHAPING INVESTING.

INVESTMENTS

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 may not be able to mirror the S&P 500® 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. This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on its derivatives positions. All of these factors may result in greater share price volatility. Please read the prospectus for specific details regarding the Portfolio's risk profile.

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DWS Investments is part of Deutsche Bank's Asset Management division and, within the US, represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

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

Performance Summary

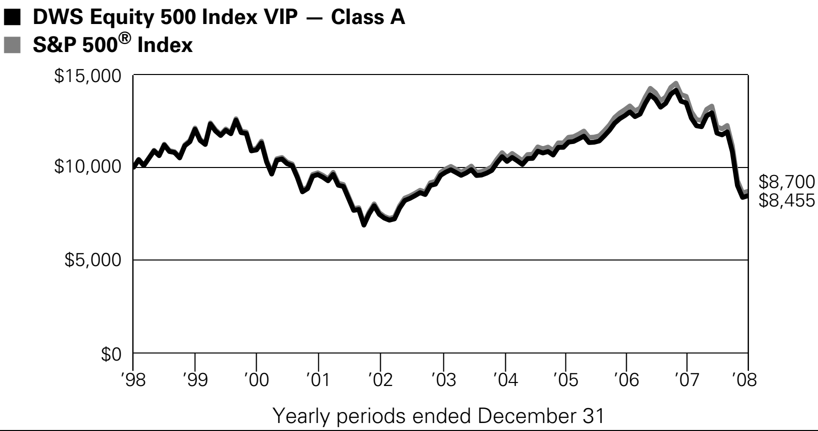
December 31, 2008

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, 2008 are 0.31%, 0.56% and 0.71% 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, 2008.

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, 2008)

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$6,285	$7,645	$8,850	$8,455
	Average annual total return	–37.15%	–8.56%	–2.41%	–1.66%
S&P 500 Index	Growth of $10,000	$6,300	$7,696	$8,953	$8,700
	Average annual total return	–37.00%	–8.36%	–2.19%	–1.38%

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$6,266	$7,585	$8,737	$9,207
	Average annual total return	–37.34%	–8.80%	–2.66%	–1.23%
S&P 500 Index	Growth of $10,000	$6,300	$7,696	$8,953	$9,528
	Average annual total return	–37.00%	–8.36%	–2.19%	–.72%

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Class**
Class B2	Growth of $10,000	$6,264	$7,566	N/A	$7,654
	Average annual total return	–37.36%	–8.88%	N/A	–7.80%
S&P 500 Index	Growth of $10,000	$6,300	$7,696	N/A	$7,857
	Average annual total return	–37.00%	–8.36%	N/A	–7.15%

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 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 six-month period and held for the entire period (July 1, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 714.80	$ 713.50	$ 713.00
Expenses Paid per $1,000*	$ 1.21	$ 2.28	$ 2.71

Hypothetical 5% Portfolio Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,023.73	$1,022.47	$1,021.97
Expenses Paid per $1,000*	$ 1.42	$ 2.69	$ 3.20

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

Annualized Expense Ratios	**Class A**	**Class B**	**Class B2**
DWS Equity 500 Index VIP	.28%	.53%	.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

December 31, 2008

The year just ended was the worst in many decades for the US equity markets. Essentially all equity indices posted negative returns for this period, as markets reflected economic problems including a housing slump, rising unemployment, a crisis of confidence and an extreme credit crunch. The Standard & Poor's® 500 (S&P 500) Index returned –37.00% for the 12-month period ended December 31, 2008. All 10 of the industry sectors within the S&P 500 posted negative returns. The weakest sector was financials, down more than 50%; the strongest was consumer staples with a negative return of –14%.

The Portfolio returned –37.15% (Class A shares, unadjusted for contract charges) for the 12-month period ended December 31, 2008. Since the Portfolio's investment strategy is to replicate as closely as possible, before the deduction of expenses, the performance of the S&P 500, the Portfolio's return is normally quite close to the return of the index.

The top contributor to the return of the index and the Portfolio was Wal-Mart Stores, Inc., which rose more than 20% during the period. Other positives were Amgen Inc., a biotechnology company; biopharmaceutical Gilead Sciences, Inc.; pharmaceutical leader Bristol-Myers Squibb Co.; and McDonald's Corp. Many of the other stocks that made positive contributions to the return appreciated when they reached agreements to be acquired; these include Anheuser-Busch* and William Wrigley Jr. Company.*

Many of the greatest detractors from performance were in the financials sector; these include Bank of America Corp., Citigroup, Inc. and American International Group, Inc. Also strongly negative was General Electric Co., which was down more than 50%.

Brent Reeder
Senior 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, 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.

Risk Considerations

The Portfolio may not be able to mirror the S&P 500 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. This Portfolio is subject to stock market risk, meaning stocks in the Portfolio may decline in value for extended periods due to the activities and financial prospects of individual companies, or due to general market and economic conditions. Additionally, derivatives may be more volatile and less liquid than traditional securities, and the Portfolio could suffer losses on its derivatives positions. All of these factors may result in greater share price volatility. Please read the prospectus for specific details regarding the Portfolio's risk profile.

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.

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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.

* *These stocks are no longer part of the S&P 500 Index or held in the Portfolio.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	100%	99%
Cash Equivalents	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Information Technology	15%	17%
Health Care	15%	12%
Energy	14%	13%
Financials	13%	18%
Consumer Staples	13%	10%
Industrials	11%	11%
Consumer Discretionary	8%	8%
Utilities	4%	4%
Telecommunication Services	4%	4%
Materials	3%	3%
	100%	100%

Ten Largest Equity Holdings (22.2% of Net Assets)

1.	**ExxonMobil Corp.** Explorer and producer of oil and gas	**5.1%**
2.	**Procter & Gamble Co.** Manufacturer of diversified consumer products	**2.3%**
3.	**General Electric Co.** A diversified company provider of services to the technology, media and financial industries	**2.2%**
4.	**AT&T, Inc.** Provider of communications services	**2.1%**
5.	**Johnson & Johnson** Provider of health care products	**2.1%**
6.	**Chevron Corp.** Operator of petroleum exploration, delivery and refining facilities	**1.9%**
7.	**Microsoft Corp.** Developer of computer software	**1.9%**
8.	**Wal-Mart Stores, Inc.** Operator of discount stores and supercenters	**1.6%**
9.	**Pfizer, Inc.** Manufacturer of prescription pharmaceuticals and nonprescription self-medications	**1.5%**
10.	**JPMorgan Chase & Co.** Provider of global financial services	**1.5%**

Asset allocation, sector diversification, and holdings are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 7. A complete list of portfolio holdings of the Portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 99.6%		
Consumer Discretionary 8.4%		
Auto Components 0.2%		
Goodyear Tire & Rubber Co.*	19,594	116,976
Johnson Controls, Inc.	48,138	874,186
		991,162
Automobiles 0.1%		
Ford Motor Co.* (a)	193,762	443,715
General Motors Corp. (a)	47,166	150,931
Harley-Davidson, Inc.	19,086	323,890
		918,536
Distributors 0.1%		
Genuine Parts Co.	13,009	**492,521**
Diversified Consumer Services 0.2%		
Apollo Group, Inc. "A"*	8,644	662,303
H&R Block, Inc.	26,596	604,261
		1,266,564
Hotels Restaurants & Leisure 1.6%		
Carnival Corp. (Unit)	35,446	862,047
Darden Restaurants, Inc.	11,654	328,410
International Game Technology	25,056	297,916
Marriott International, Inc. "A"	23,940	465,633
McDonald's Corp.	91,191	5,671,168
Starbucks Corp.*	59,228	560,297
Starwood Hotels & Resorts Worldwide, Inc.	15,125	270,737
Wyndham Worldwide Corp.	14,337	93,907
Wynn Resorts Ltd.* (a)	4,600	194,396
Yum! Brands, Inc.	38,016	1,197,504
		9,942,015
Household Durables 0.4%		
Black & Decker Corp.	4,922	205,789
Centex Corp.	10,635	113,156
D.R. Horton, Inc.	22,700	160,489
Fortune Brands, Inc.	12,155	501,758
Harman International Industries, Inc.	4,800	80,304
KB HOME	6,192	84,335
Leggett & Platt, Inc.	13,064	198,442
Lennar Corp. "A"	11,700	101,439
Newell Rubbermaid, Inc.	22,497	220,021
Pulte Homes, Inc. (a)	17,582	192,171
Snap-on, Inc.	4,693	184,810
The Stanley Works	6,456	220,150
Whirlpool Corp. (a)	6,188	255,874
		2,518,738
Internet & Catalog Retail 0.2%		
Amazon.com, Inc.*	25,928	1,329,588
Expedia, Inc.*	16,953	139,693
		1,469,281
Leisure Equipment & Products 0.1%		
Eastman Kodak Co. (a)	21,807	143,490
Hasbro, Inc.	10,186	297,126
Mattel, Inc.	29,298	468,768
		909,384
Media 2.6%		
CBS Corp. "B"	55,087	451,163
Comcast Corp. "A" (a)	234,787	3,963,205
Gannett Co., Inc. (a)	18,542	148,336
Interpublic Group of Companies, Inc.*	38,897	154,032
McGraw-Hill Companies, Inc.	25,764	597,467
Meredith Corp.	2,924	50,059
New York Times Co. "A" (a)	9,610	70,441
News Corp. "A"	186,154	1,692,140
Omnicom Group, Inc.	25,332	681,937
Scripps Networks Interactive "A"	7,400	162,800
The DIRECTV Group, Inc.*	44,300	1,014,913
Time Warner, Inc.	290,530	2,922,732
Viacom, Inc. "B"*	50,387	960,376
Walt Disney Co.	150,880	3,423,467
Washington Post Co. "B"	518	202,150
		16,495,218
Multiline Retail 0.7%		
Big Lots, Inc.*	6,792	98,416
Family Dollar Stores, Inc.	11,470	299,023
J.C. Penney Co., Inc.	18,022	355,033
Kohl's Corp.*	24,678	893,344
Macy's, Inc.	34,108	353,018
Nordstrom, Inc. (a)	12,948	172,338
Sears Holdings Corp.* (a)	4,743	184,360
Target Corp.	61,210	2,113,581
		4,469,113
Specialty Retail 1.8%		
Abercrombie & Fitch Co. "A"	7,000	161,490
AutoNation, Inc.*	8,951	88,436
AutoZone, Inc.*	3,091	431,102
Bed Bath & Beyond, Inc.*	21,116	536,769
Best Buy Co., Inc.	27,436	771,226
GameStop Corp. "A"*	13,500	292,410
Home Depot, Inc. (a)	138,385	3,185,622
Limited Brands, Inc.	22,070	221,583
Lowe's Companies, Inc.	118,900	2,558,728
Office Depot, Inc.*	23,203	69,145
RadioShack Corp.	10,845	129,489
Staples, Inc.	57,689	1,033,787
The Gap, Inc.	37,732	505,231
The Sherwin-Williams Co.	7,989	477,343
Tiffany & Co.	10,000	236,300
TJX Companies, Inc.	33,958	698,516
		11,397,177
Textiles, Apparel & Luxury Goods 0.4%		
Coach, Inc.*	26,700	554,559
Jones Apparel Group, Inc.	6,794	39,813
NIKE, Inc. "B"	31,950	1,629,450
Polo Ralph Lauren Corp.	4,600	208,886
VF Corp.	7,087	388,155
		2,820,863
Consumer Staples 12.8%		
Beverages 2.5%		
Brown-Forman Corp. "B"	8,350	429,941
Coca-Cola Co.	161,214	7,298,158
Coca-Cola Enterprises, Inc.	24,150	290,525
Constellation Brands, Inc. "A"*	16,600	261,782

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

	Shares	Value ($)
Dr. Pepper Snapple Group, Inc.*	21,200	344,500
Molson Coors Brewing Co. "B"	11,784	576,473
Pepsi Bottling Group, Inc.	11,411	256,862
PepsiCo, Inc.	126,546	6,930,924
		16,389,165
Food & Staples Retailing 3.3%		
Costco Wholesale Corp.	35,245	1,850,362
CVS Caremark Corp.	116,390	3,345,049
Kroger Co.	53,063	1,401,394
Safeway, Inc.	34,927	830,215
SUPERVALU, Inc.	17,248	251,821
Sysco Corp.	48,857	1,120,779
Wal-Mart Stores, Inc.	181,827	10,193,222
Walgreen Co.	80,296	1,980,902
Whole Foods Market, Inc.	11,400	107,616
		21,081,360
Food Products 1.8%		
Archer-Daniels-Midland Co.	52,207	1,505,128
Campbell Soup Co.	17,385	521,724
ConAgra Foods, Inc.	37,305	615,532
Dean Foods Co.*	11,500	206,655
General Mills, Inc.	27,228	1,654,101
H.J. Heinz Co.	25,379	954,250
Kellogg Co.	20,332	891,558
Kraft Foods, Inc. "A"	122,482	3,288,642
McCormick & Co., Inc.	10,614	338,162
Sara Lee Corp.	57,239	560,370
The Hershey Co. (a)	13,746	477,536
The J.M. Smucker Co.	9,766	423,454
Tyson Foods, Inc. "A"	22,800	199,728
		11,636,840
Household Products 3.1%		
Clorox Co.	11,230	623,939
Colgate-Palmolive Co.	41,021	2,811,579
Kimberly-Clark Corp.	33,847	1,785,091
Procter & Gamble Co.	243,041	15,024,794
		20,245,403
Personal Products 0.2%		
Avon Products, Inc.	34,470	828,314
Estee Lauder Companies, Inc. "A"	9,300	287,928
		1,116,242
Tobacco 1.9%		
Altria Group, Inc.	167,470	2,522,098
Lorillard, Inc.	13,702	772,108
Philip Morris International, Inc.	166,070	7,225,706
Reynolds American, Inc.	13,728	553,376
UST, Inc.	12,235	848,864
		11,922,152
Energy 13.3%		
Energy Equipment & Services 1.6%		
Baker Hughes, Inc.	24,971	800,820
BJ Services Co.	23,886	278,750
Cameron International Corp.*	17,900	366,950
ENSCO International, Inc.	11,700	332,163
Halliburton Co.	71,573	1,301,197
Nabors Industries Ltd.*	22,696	271,671
National-Oilwell Varco, Inc.*	34,000	830,960
Noble Corp.	21,790	481,341
Rowan Companies, Inc.	9,282	147,584
Schlumberger Ltd.	98,618	4,174,500
Smith International, Inc.	17,500	400,575
Weatherford International Ltd.*	55,188	597,134
		9,983,645
Oil, Gas & Consumable Fuels 11.7%		
Anadarko Petroleum Corp.	38,014	1,465,440
Apache Corp.	27,153	2,023,713
Cabot Oil & Gas Corp.	8,400	218,400
Chesapeake Energy Corp. (a)	45,100	729,267
Chevron Corp.	165,582	12,248,101
ConocoPhillips	121,542	6,295,876
CONSOL Energy, Inc.	14,800	422,984
Devon Energy Corp.	35,792	2,351,892
El Paso Corp.	57,854	452,997
EOG Resources, Inc.	20,257	1,348,711
ExxonMobil Corp.	414,604	33,097,837
Hess Corp.	22,950	1,231,038
Marathon Oil Corp.	57,242	1,566,141
Massey Energy Co.	6,600	91,014
Murphy Oil Corp.	15,500	687,425
Noble Energy, Inc.	14,300	703,846
Occidental Petroleum Corp.	66,188	3,970,618
Peabody Energy Corp.	21,700	493,675
Pioneer Natural Resources Co.	9,900	160,182
Range Resources Corp.	12,368	425,336
Southwestern Energy Co.*	28,300	819,851
Spectra Energy Corp.	49,791	783,710
Sunoco, Inc.	9,416	409,219
Tesoro Corp.	11,300	148,821
Valero Energy Corp.	42,072	910,438
Williams Companies, Inc.	46,787	677,476
XTO Energy, Inc.	46,085	1,625,418
		75,359,426
Financials 13.2%		
Capital Markets 2.3%		
American Capital Ltd. (a)	16,100	52,164
Ameriprise Financial, Inc.	17,605	411,253
Bank of New York Mellon Corp.	92,948	2,633,217
Charles Schwab Corp.	75,663	1,223,471
E*TRADE Financial Corp.* (a)	39,900	45,885
Federated Investors, Inc. "B"	7,100	120,416
Franklin Resources, Inc.	12,352	787,810
Invesco Ltd.	31,400	453,416
Janus Capital Group, Inc.	12,271	98,536
Legg Mason, Inc.	11,500	251,965
Merrill Lynch & Co., Inc.	132,672	1,544,302
Morgan Stanley	88,440	1,418,578
Northern Trust Corp.	18,549	967,145
State Street Corp.	35,065	1,379,106
T. Rowe Price Group, Inc.	20,920	741,405
The Goldman Sachs Group, Inc.	35,833	3,023,947
		15,152,616
Commercial Banks 3.1%		
BB&T Corp. (a)	44,534	1,222,904
Comerica, Inc. (a)	12,137	240,919
Fifth Third Bancorp. (a)	46,406	383,314
First Horizon National Corp.	13,774	145,591
Huntington Bancshares, Inc.	29,660	227,196
KeyCorp.	40,129	341,899
M&T Bank Corp.	6,250	358,812
Marshall & Ilsley Corp. (a)	21,052	287,149
National City Corp.	166,776	301,865

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

	Shares	Value ($)
PNC Financial Services Group, Inc. (a)	28,126	1,378,174
Regions Financial Corp.	56,361	448,634
SunTrust Banks, Inc.	28,671	846,941
US Bancorp.	145,354	3,635,303
Wachovia Corp.	175,099	970,048
Wells Fargo & Co.	309,748	9,131,371
Zions Bancorp.	9,011	220,860
		20,140,980
Consumer Finance 0.5%		
American Express Co.	94,025	1,744,164
Capital One Financial Corp.	31,602	1,007,788
Discover Financial Services	38,870	370,431
SLM Corp.*	37,878	337,114
		3,459,497
Diversified Financial Services 3.4%		
Bank of America Corp.	410,850	5,784,768
CIT Group, Inc.	23,124	104,983
Citigroup, Inc.	447,631	3,003,604
CME Group, Inc.	5,400	1,123,794
IntercontinentalExchange, Inc.*	6,100	502,884
JPMorgan Chase & Co.	305,491	9,632,131
Leucadia National Corp.*	14,400	285,120
Moody's Corp.	15,852	318,467
NYSE Euronext	21,600	591,408
The NASDAQ OMX Group, Inc.*	11,000	271,810
		21,618,969
Insurance 2.7%		
Aflac, Inc.	38,637	1,771,120
Allstate Corp.	43,956	1,439,999
American International Group, Inc.	217,981	342,230
Aon Corp.	22,283	1,017,887
Assurant, Inc.	8,600	258,000
Chubb Corp.	28,970	1,477,470
Cincinnati Financial Corp.	13,109	381,079
Genworth Financial, Inc. "A"	35,100	99,333
Hartford Financial Services Group, Inc.	24,434	401,206
Lincoln National Corp.	20,769	391,288
Loews Corp.	29,382	830,042
Marsh & McLennan Companies, Inc.	41,613	1,009,948
MBIA, Inc. (a)	15,864	64,566
MetLife, Inc.	63,732	2,221,698
Principal Financial Group, Inc.	21,011	474,218
Progressive Corp.	54,756	810,936
Prudential Financial, Inc.	35,563	1,076,136
The Travelers Companies, Inc.	47,871	2,163,769
Torchmark Corp.	7,210	322,287
Unum Group	27,965	520,149
XL Capital Ltd. "A" (a)	25,277	93,525
		17,166,886
Real Estate Investment Trusts 1.0%		
Apartment Investment & Management Co. "A" (REIT)	8,095	93,497
AvalonBay Communities, Inc. (REIT)	6,300	381,654
Boston Properties, Inc. (REIT)	9,700	533,500
Developers Diversified Realty Corp. (REIT)	9,700	47,336
Equity Residential (REIT)	21,930	653,953
HCP, Inc. (REIT)	20,085	557,760

	Shares	Value ($)
Host Hotels & Resorts, Inc. (REIT)	42,100	318,697
Kimco Realty Corp. (REIT) (a)	19,600	358,288
Plum Creek Timber Co., Inc. (REIT)	13,900	482,886
ProLogis (REIT)	23,700	329,193
Public Storage (REIT)	10,146	806,607
Simon Property Group, Inc. (REIT)	18,241	969,144
Vornado Realty Trust (REIT)	11,100	669,885
		6,202,400
Real Estate Management & Development 0.0%		
CB Richard Ellis Group, Inc. "A"*	14,200	**61,344**
Thrifts & Mortgage Finance 0.2%		
Hudson City Bancorp., Inc.	42,200	673,512
People's United Financial, Inc.	28,600	509,938
Sovereign Bancorp., Inc.*	41,798	124,558
		1,308,008
Health Care 14.7%		
Biotechnology 2.2%		
Amgen, Inc.*	86,916	5,019,399
Biogen Idec, Inc.*	23,560	1,122,163
Celgene Corp.*	38,100	2,106,168
Cephalon, Inc.*	5,600	431,424
Genzyme Corp.*	21,803	1,447,065
Gilead Sciences, Inc.*	74,572	3,813,612
		13,939,831
Health Care Equipment & Supplies 2.2%		
Baxter International, Inc.	50,903	2,727,892
Becton, Dickinson & Co.	19,778	1,352,617
Boston Scientific Corp.*	121,665	941,687
C.R. Bard, Inc.	8,098	682,338
Covidien Ltd.	40,688	1,474,533
DENTSPLY International, Inc.	12,100	341,704
Hospira, Inc.*	13,420	359,924
Intuitive Surgical, Inc.*	3,100	393,669
Medtronic, Inc.	91,125	2,863,148
St. Jude Medical, Inc.*	27,688	912,597
Stryker Corp. (a)	20,082	802,276
Varian Medical Systems, Inc.*	10,300	360,912
Zimmer Holdings, Inc.*	18,284	739,039
		13,952,336
Health Care Providers & Services 2.1%		
Aetna, Inc.	38,272	1,090,752
AmerisourceBergen Corp.	13,082	466,504
Cardinal Health, Inc.	29,100	1,003,077
CIGNA Corp.	22,305	375,839
Coventry Health Care, Inc.*	11,995	178,486
DaVita, Inc.*	8,500	421,345
Express Scripts, Inc.*	19,968	1,097,841
Humana, Inc.*	13,675	509,804
Laboratory Corp. of America Holdings*	8,991	579,110
McKesson Corp.	22,315	864,260
Medco Health Solutions, Inc.*	41,028	1,719,483
Patterson Companies, Inc.*	7,700	144,375
Quest Diagnostics, Inc.	12,816	665,279
Tenet Healthcare Corp.*	33,700	38,755
UnitedHealth Group, Inc.	98,708	2,625,633
WellPoint, Inc.*	41,488	1,747,889
		13,528,432
Health Care Technology 0.0%		
IMS Health, Inc.	15,030	**227,855**

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

	Shares	Value ($)
Life Sciences Tools & Services 0.3%		
Life Technologies Corp.*	13,210	307,925
Millipore Corp.*	4,515	232,613
PerkinElmer, Inc.	10,036	139,601
Thermo Fisher Scientific, Inc.*	33,921	1,155,688
Waters Corp.*	8,400	307,860
		2,143,687
Pharmaceuticals 7.9%		
Abbott Laboratories	125,282	6,686,300
Allergan, Inc.	25,024	1,008,968
Bristol-Myers Squibb Co.	160,462	3,730,741
Eli Lilly & Co.	81,137	3,267,387
Forest Laboratories, Inc.*	25,195	641,717
Johnson & Johnson	226,634	13,559,512
King Pharmaceuticals, Inc.*	20,386	216,499
Merck & Co., Inc.	172,359	5,239,714
Mylan, Inc.* (a)	24,836	245,628
Pfizer, Inc.	552,389	9,782,809
Schering-Plough Corp.	131,850	2,245,406
Watson Pharmaceuticals, Inc.*	8,655	229,963
Wyeth	108,076	4,053,931
		50,908,575

Industrials 11.0%

	Shares	Value ($)
Aerospace & Defense 2.8%		
Boeing Co.	59,708	2,547,740
General Dynamics Corp.	31,734	1,827,561
Goodrich Corp.	10,161	376,160
Honeywell International, Inc.	60,347	1,981,192
L-3 Communications Holdings, Inc.	10,000	737,800
Lockheed Martin Corp.	26,993	2,269,572
Northrop Grumman Corp.	26,731	1,203,964
Precision Castparts Corp.	11,300	672,124
Raytheon Co.	33,696	1,719,844
Rockwell Collins, Inc.	12,931	505,473
United Technologies Corp.	77,500	4,154,000
		17,995,430
Air Freight & Logistics 1.1%		
C.H. Robinson Worldwide, Inc.	13,800	759,414
Expeditors International of Washington, Inc.	17,300	575,571
FedEx Corp.	25,265	1,620,750
United Parcel Service, Inc. "B"	81,158	4,476,675
		7,432,410
Airlines 0.1%		
Southwest Airlines Co.	59,495	**512,847**
Building Products 0.1%		
Masco Corp.	29,165	**324,606**
Commercial Services & Supplies 0.5%		
Avery Dennison Corp.	8,586	281,020
Cintas Corp.	10,742	249,537
Pitney Bowes, Inc.	16,846	429,236
R.R. Donnelley & Sons Co.	17,329	235,328
Republic Services, Inc.	25,999	644,515
Stericycle, Inc.*	6,900	359,352
Waste Management, Inc.	39,769	1,317,944
		3,516,932
Construction & Engineering 0.2%		
Fluor Corp.	14,550	652,859
Jacobs Engineering Group, Inc.*	9,900	476,190
		1,129,049

	Shares	Value ($)
Electrical Equipment 0.5%		
Cooper Industries Ltd. "A"	14,128	412,961
Emerson Electric Co.	62,504	2,288,272
Rockwell Automation, Inc.	11,647	375,499
		3,076,732
Industrial Conglomerates 2.8%		
3M Co.	56,536	3,253,082
General Electric Co.	853,032	13,819,118
Textron, Inc.	20,182	279,924
Tyco International Ltd.	38,488	831,341
		18,183,465
Machinery 1.6%		
Caterpillar, Inc.	49,236	2,199,372
Cummins, Inc.	16,412	438,693
Danaher Corp.	20,665	1,169,845
Deere & Co.	34,724	1,330,624
Dover Corp.	15,102	497,158
Eaton Corp.	13,505	671,333
Flowserve Corp.	4,600	236,900
Illinois Tool Works, Inc.	32,094	1,124,895
Ingersoll-Rand Co., Ltd. "A"	25,840	448,324
ITT Corp.	14,694	675,777
Manitowoc Co., Inc.	10,900	94,394
PACCAR, Inc. (a)	31,001	886,628
Pall Corp.	9,653	274,435
Parker Hannifin Corp.	13,168	560,167
		10,608,545
Professional Services 0.2%		
Dun & Bradstreet Corp.	4,400	339,680
Equifax, Inc.	10,591	280,873
Monster Worldwide, Inc.*	10,085	121,928
Robert Half International, Inc.	12,700	264,414
		1,006,895
Road & Rail 1.0%		
Burlington Northern Santa Fe Corp. (a)	22,838	1,729,065
CSX Corp.	32,148	1,043,845
Norfolk Southern Corp.	30,186	1,420,251
Ryder System, Inc.	4,552	176,527
Union Pacific Corp.	41,262	1,972,324
		6,342,012
Trading Companies & Distributors 0.1%		
Fastenal Co. (a)	10,500	365,925
W.W. Grainger, Inc.	5,209	410,678
		776,603

Information Technology 15.2%

	Shares	Value ($)
Communications Equipment 2.5%		
Ciena Corp.* (a)	7,465	50,015
Cisco Systems, Inc.*	479,995	7,823,918
Corning, Inc.	126,722	1,207,661
Harris Corp.	10,300	391,915
JDS Uniphase Corp.*	17,678	64,525
Juniper Networks, Inc.*	44,100	772,191
Motorola, Inc.	183,680	813,702
QUALCOMM, Inc.	134,120	4,805,520
Tellabs, Inc.*	33,416	137,674
		16,067,121

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

	Shares	Value ($)
Computers & Peripherals 4.2%		
Apple, Inc.*	72,562	6,193,167
Dell, Inc.*	141,309	1,447,004
EMC Corp.*	166,367	1,741,863
Hewlett-Packard Co.	198,627	7,208,174
International Business Machines Corp.	109,502	9,215,688
Lexmark International, Inc. "A"*	6,368	171,299
NetApp, Inc.*	26,584	371,378
QLogic Corp.*	10,618	142,706
SanDisk Corp.* (a)	18,200	174,720
Sun Microsystems, Inc.*	61,045	233,193
Teradata Corp.*	14,751	218,757
		27,117,949
Electronic Equipment, Instruments & Components 0.3%		
Agilent Technologies, Inc.*	29,097	454,786
Amphenol Corp. "A"	14,600	350,108
FLIR Systems, Inc.*	11,300	346,684
Jabil Circuit, Inc.	16,647	112,367
Molex, Inc.	11,817	171,228
Tyco Electronics Ltd.	38,288	620,649
		2,055,822
Internet Software & Services 1.4%		
Akamai Technologies, Inc.*	13,700	206,733
eBay, Inc.*	88,568	1,236,409
Google, Inc. "A"*	19,453	5,984,715
VeriSign, Inc.*	15,700	299,556
Yahoo!, Inc.*	112,388	1,371,134
		9,098,547
IT Services 1.0%		
Affiliated Computer Services, Inc. "A"*	7,973	366,359
Automatic Data Processing, Inc. (a)	41,208	1,621,123
Cognizant Technology Solutions Corp. "A"*	23,700	428,022
Computer Sciences Corp.*	12,344	433,768
Convergys Corp.*	10,072	64,562
Fidelity National Information Services, Inc.	14,400	234,288
Fiserv, Inc.*	13,042	474,338
MasterCard, Inc. "A" (a)	5,900	843,287
Paychex, Inc.	26,011	683,569
Total System Services, Inc.	15,461	216,454
Western Union Co.	59,112	847,666
		6,213,436
Office Electronics 0.1%		
Xerox Corp.	70,688	**563,384**
Semiconductors & Semiconductor Equipment 2.1%		
Advanced Micro Devices, Inc.* (a)	50,960	110,073
Altera Corp.	24,186	404,148
Analog Devices, Inc.	23,535	447,636
Applied Materials, Inc.	108,830	1,102,448
Broadcom Corp. "A"*	35,821	607,882
Intel Corp.	453,345	6,646,038
KLA-Tencor Corp.	13,745	299,503
Linear Technology Corp. (a)	18,014	398,470
LSI Corp.* (a)	53,113	174,742
MEMC Electronic Materials, Inc.*	18,300	261,324
Microchip Technology, Inc.	14,800	289,044
Micron Technology, Inc.* (a)	62,220	164,261
National Semiconductor Corp.	15,826	159,368
Novellus Systems, Inc.*	8,114	100,127
NVIDIA Corp.*	43,821	353,635
Teradyne, Inc.*	13,904	58,675
Texas Instruments, Inc.	105,679	1,640,138
Xilinx, Inc.	22,346	398,206
		13,615,718
Software 3.6%		
Adobe Systems, Inc.*	43,010	915,683
Autodesk, Inc.*	18,548	364,468
BMC Software, Inc.*	15,706	422,649
CA, Inc.	31,959	592,200
Citrix Systems, Inc.*	15,098	355,860
Compuware Corp.*	21,046	142,061
Electronic Arts, Inc.*	25,858	414,762
Intuit, Inc.*	26,370	627,342
McAfee, Inc.*	12,400	428,668
Microsoft Corp.	624,771	12,145,548
Novell, Inc.*	28,536	111,005
Oracle Corp.*	317,778	5,634,204
Salesforce.com, Inc.*	8,500	272,085
Symantec Corp.* (a)	68,152	921,415
		23,347,950
Materials 3.0%		
Chemicals 1.7%		
Air Products & Chemicals, Inc.	17,139	861,577
CF Industries Holdings, Inc.	4,600	226,136
Dow Chemical Co.	75,061	1,132,670
E.I. du Pont de Nemours & Co.	73,212	1,852,264
Eastman Chemical Co.	6,330	200,724
Ecolab, Inc.	13,666	480,360
International Flavors & Fragrances, Inc.	6,543	194,458
Monsanto Co.	44,616	3,138,736
PPG Industries, Inc.	13,350	566,440
Praxair, Inc.	25,185	1,494,982
Rohm & Haas Co.	10,094	623,708
Sigma-Aldrich Corp.	10,440	440,986
		11,213,041
Construction Materials 0.1%		
Vulcan Materials Co.	9,525	**662,749**
Containers & Packaging 0.2%		
Ball Corp.	7,836	325,899
Bemis Co., Inc.	7,872	186,409
Owens-Illinois, Inc.*	13,600	371,688
Pactiv Corp.*	10,619	264,201
Sealed Air Corp.	13,196	197,148
		1,345,345
Metals & Mining 0.8%		
AK Steel Holding Corp.	9,100	84,812
Alcoa, Inc.	65,281	735,064
Allegheny Technologies, Inc.	7,817	199,568
Freeport-McMoRan Copper & Gold, Inc.	30,799	752,728
Newmont Mining Corp.	37,032	1,507,202
Nucor Corp.	25,630	1,184,106
Titanium Metals Corp. (a)	6,900	60,789
United States Steel Corp.	9,459	351,875
		4,876,144
Paper & Forest Products 0.2%		
International Paper Co.	34,672	409,130
MeadWestvaco Corp.	13,859	155,082

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

	Shares	Value ($)
Weyerhaeuser Co.	17,098	523,370
		1,087,582

Telecommunication Services 3.8%

	Shares	Value ($)
Diversified Telecommunication Services 3.6%		
AT&T, Inc.	478,336	13,632,576
CenturyTel, Inc.	8,219	224,625
Embarq Corp.	11,498	413,468
Frontier Communications Corp. (a)	26,090	228,027
Qwest Communications International, Inc. (a)	119,440	434,762
Verizon Communications, Inc.	230,929	7,828,493
Windstream Corp.	35,759	328,983
		23,090,934
Wireless Telecommunication Services 0.2%		
American Tower Corp. "A"*	33,800	991,016
Sprint Nextel Corp.*	231,468	423,586
		1,414,602

Utilities 4.2%

	Shares	Value ($)
Electric Utilities 2.5%		
Allegheny Energy, Inc.	13,910	470,993
American Electric Power Co., Inc.	32,616	1,085,461
Duke Energy Corp.	104,883	1,574,294
Edison International	26,367	846,908
Entergy Corp.	15,656	1,301,483
Exelon Corp.	53,542	2,977,471
FirstEnergy Corp.	24,754	1,202,549
FPL Group, Inc.	33,084	1,665,118
Pepco Holdings, Inc.	16,900	300,144
Pinnacle West Capital Corp.	7,608	244,445
PPL Corp.	30,928	949,180
Progress Energy, Inc.	21,631	861,995
Southern Co.	64,804	2,397,748
		15,877,789
Gas Utilities 0.1%		
Equitable Resources, Inc.	10,600	355,630
Nicor, Inc. (a)	3,684	127,982
Questar Corp.	14,300	467,467
		951,079
Independent Power Producers & Energy Traders 0.1%		
AES Corp.*	56,448	465,131
Constellation Energy Group, Inc.	14,410	361,547
Dynegy, Inc. "A"*	39,872	79,744
		906,422
Multi-Utilities 1.5%		
Ameren Corp.	17,369	577,693
CenterPoint Energy, Inc.	26,021	328,385
CMS Energy Corp.	21,772	220,115
Consolidated Edison, Inc.	22,122	861,209
Dominion Resources, Inc.	47,058	1,686,559
DTE Energy Co.	13,257	472,877
Integrys Energy Group, Inc.	6,300	270,774
NiSource, Inc.	22,208	243,622
PG&E Corp.	29,049	1,124,487
Public Service Enterprise Group, Inc.	41,250	1,203,263
SCANA Corp.	9,600	344,640
Sempra Energy	19,987	852,046
TECO Energy, Inc. (a)	17,300	213,655
Wisconsin Energy Corp.	9,600	403,008
Xcel Energy, Inc.	34,057	631,758
		9,434,091
Total Common Stocks (Cost $799,896,107)		**641,081,452**

	Principal Amount ($)	Value ($)

Government & Agency Obligation 0.3%

US Treasury Obligation

	Principal Amount ($)	Value ($)
US Treasury Bill, 0.829%**, 5/14/2009 (b) (Cost $1,698,049)	1,700,000	**1,699,563**

Securities Lending Collateral 2.8%

	Shares	Value ($)
Daily Assets Fund Institutional, 1.69% (c) (d) (Cost $18,029,128)	18,029,128	**18,029,128**

Cash Equivalents 0.0%

	Shares	Value ($)
Cash Management QP Trust, 1.42% (c) (Cost $306,575)	306,575	**306,575**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $819,929,859)†	102.7	**661,116,718**
Other Assets and Liabilities, Net	(2.7)	**(17,176,725)**
Net Assets	100.0	**643,939,993**

* *Non-income producing security.*

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

† *The cost for federal income tax purposes was $842,134,517. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $181,017,799. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $77,359,877 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $258,377,676.*

(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, 2008 amounted to $17,904,013, which is 2.8% of net assets.*

(b) *At December 31, 2008, 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

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

At December 31, 2008, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation ($)
S&P 500 Index	3/19/2009	10	2,193,492	2,250,250	**56,758**

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities	Other Financial Instruments††
Level 1	$ 659,110,580	$ 56,758
Level 2	2,006,138	—
Level 3	—	—
Total	**$ 661,116,718**	**$ 56,758**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as future contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $801,594,156) — including $17,904,013 of securities loaned	$	642,781,015
Investment in Daily Assets Fund Institutional (cost $18,029,128)*		18,029,128
Investment in Cash Management QP Trust (cost $306,575)		306,575
Total investments, at value (cost $819,929,859)		661,116,718
Cash		2,676
Dividends receivable		1,105,406
Receivable for investments sold		1,504,982
Interest receivable		42,065
Receivable for Portfolio shares sold		281,803
Receivable for daily variation margin on open futures contracts		64,208
Other assets		46,407
Total assets		664,164,265

Liabilities		
Payable upon return of securities loaned		18,029,128
Payable for investments purchased		1,073,415
Payable for Portfolio shares redeemed		849,341
Accrued management fee		106,206
Other accrued expenses and payables		166,182
Total liabilities		20,224,272
Net assets, at value	**$**	**643,939,993**

Net Assets Consist of		
Undistributed net investment income		18,642,625
Net unrealized appreciation (depreciation) on:		
Investments		(158,813,141)
Futures		56,758
Accumulated net realized gain (loss)		(43,680,828)
Paid-in capital		827,734,579
Net assets, at value	**$**	**643,939,993**
Class A		
Net Asset Value, offering and redemption price per share ($584,443,697 ÷ 61,222,579 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**9.55**
Class B		
Net Asset Value, offering and redemption price per share ($40,494,298 ÷ 4,244,481 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**9.54**
Class B2		
Net Asset Value, offering and redemption price per share ($19,001,998 ÷ 1,992,383 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**9.54**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends	$	20,976,969
Interest		21,255
Interest — Cash Management QP Trust		143,440
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		444,291
Total Income		21,585,955
Expenses:		
Management fee		1,833,164
Administration fee		919,349
Custodian fee		48,732
Distribution service fees (Class B and Class B2)		207,707
Record keeping fee (Class B2)		44,036
Services to shareholders		2,504
Professional fees		74,325
Trustees' fees and expenses		31,494
Reports to shareholders		35,296
Other		56,606
Total expenses before expense reductions		3,253,213
Expense reductions		(437,438)
Total expenses after expense reductions		2,815,775
Net investment income (loss)		**18,770,180**

Realized and Unrealized Gain (Loss) on Investment Transactions		
Net realized gain (loss) from:		
Investments		(2,449,696)
Futures		(3,839,526)
		(6,289,222)
Change in net unrealized appreciation (depreciation)		
Investments		(415,944,138)
Futures		7,456
		(415,936,682)
Net gain (loss)		**(422,225,904)**
Net increase (decrease) in net assets resulting from operations	**$**	**(403,455,724)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 18,770,180	$ 22,969,195
Net realized gain (loss)	(6,289,222)	113,424,087
Change in net unrealized appreciation (depreciation)	(415,936,682)	(54,265,444)
Net increase (decrease) in net assets resulting from operations	(403,455,724)	82,127,838
Distributions to shareholders from:		
Net investment income:		
Class A	(20,754,466)	(21,156,472)
Class B	(1,112,015)	(1,115,985)
Class B2	(765,628)	(629,996)
Total distributions	(22,632,109)	(22,902,453)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	61,208,851	142,014,066
Reinvestment of distributions	20,754,466	21,156,472
Cost of shares redeemed	(154,585,231)	(285,852,359)
In-kind redemptions	—	(297,115,219)
Net increase (decrease) in net assets from Class A share transactions	(72,621,914)	(419,797,040)
Class B		
Proceeds from shares sold	8,002,088	14,114,550
Reinvestment of distributions	1,112,015	1,115,985
Cost of shares redeemed	(9,476,800)	(37,769,157)
Net increase (decrease) in net assets from Class B share transactions	(362,697)	(22,538,622)
Class B2		
Proceeds from shares sold	2,162,449	3,660,238
Reinvestment of distributions	765,628	629,996
Cost of shares redeemed	(18,892,660)	(15,637,931)
Net increase (decrease) in net assets from Class B2 share transactions	(15,964,583)	(11,347,697)
Increase (decrease) in net assets	(515,037,027)	(394,457,974)
Net assets at beginning of period	1,158,977,020	1,553,434,994
Net assets at end of period (including undistributed net investment income of $18,642,625 and $22,718,721, respectively)	**$ 643,939,993**	**$ 1,158,977,020**

Statement of Changes in Net Assets (continued)

Increase (Decrease) in Net Assets	Years Ended December 31, 2008	2007
Class A		
Shares outstanding at beginning of period	67,350,398	94,305,191
Shares sold	4,745,972	9,198,622
Shares issued to shareholders in reinvestment of distributions	1,446,304	1,366,697
Shares redeemed	(12,320,095)	(18,652,060)
In-kind redemptions	—	(18,868,052)
Net increase (decrease) in Class A shares	(6,127,819)	(26,954,793)
Shares outstanding at end of period	**61,222,579**	**67,350,398**
Class B		
Shares outstanding at beginning of period	4,176,782	5,613,107
Shares sold	720,240	915,083
Shares issued to shareholders in reinvestment of distributions	77,384	72,046
Shares redeemed	(729,925)	(2,423,454)
Net increase (decrease) in Class B shares	67,699	(1,436,325)
Shares outstanding at end of period	**4,244,481**	**4,176,782**
Class B2		
Shares outstanding at beginning of period	3,113,678	3,841,811
Shares sold	180,545	240,022
Shares issued to shareholders in reinvestment of distributions	53,280	40,645
Shares redeemed	(1,355,120)	(1,008,800)
Net increase (decrease) in Class B2 shares	(1,121,295)	(728,133)
Shares outstanding at end of period	**1,992,383**	**3,113,678**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$15.53**	**$14.97**	**$13.11**	**$12.73**	**$11.64**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.27	.27	.24	.21	.21
Net realized and unrealized gain (loss)	(5.93)	.52	1.78	.37	1.01
Total from investment operations	(5.66)	.79	2.02	.58	1.22
Less distributions from:					
Net investment income	(.32)	(.23)	(.16)	(.20)	(.13)
Net asset value, end of period	**$ 9.55**	**$15.53**	**$14.97**	**$13.11**	**$12.73**
Total Return (%)	(37.15)[b]	5.30[b]	15.52[b]	4.68	10.59[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	584	1,046	1,412	1,102	790
Ratio of expenses before expense reductions and/or recoupments (%)	.33	.33	.28	.27	.28
Ratio of expenses after expense reductions and/or recoupments (%)	.28	.30	.27	.27	.29
Ratio of net investment income (loss) (%)	2.07	1.71	1.73	1.62	1.76
Portfolio turnover rate (%)	6	7[c]	9	15	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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$15.52**	**$14.96**	**$13.10**	**$12.72**	**$11.63**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.24	.23	.21	.17	.20
Net realized and unrealized gain (loss)	(5.94)	.52	1.78	.38	.99
Total from investment operations	(5.70)	.75	1.99	.55	1.19
Less distributions from:					
Net investment income	(.28)	(.19)	(.13)	(.17)	(.10)
Net asset value, end of period	**$ 9.54**	**$15.52**	**$14.96**	**$13.10**	**$12.72**
Total Return (%)	(37.34)[b]	5.03[b]	15.24[b]	4.42	10.32[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	40	65	84	68	53
Ratio of expenses before expense reductions and/or recoupments (%)	.58	.58	.53	.52	.53
Ratio of expenses after expense reductions and/or recoupments (%)	.53	.55	.52	.52	.54
Ratio of net investment income (loss) (%)	1.82	1.46	1.48	1.37	1.71
Portfolio turnover rate (%)	6	7[c]	9	15	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,	2008	2007	2006	2005[a]
Selected Per Share Data				
Net asset value, beginning of period	**$15.51**	**$14.96**	**$13.09**	**$12.94**
Income (loss) from investment operations:				
Net investment income (loss)[b]	.22	.21	.19	.05
Net realized and unrealized gain (loss)	(5.93)	.52	1.79	.10
Total from investment operations	(5.71)	.73	1.98	.15
Less distributions from:				
Net investment income	(.26)	(.18)	(.11)	—
Net asset value, end of period	**$ 9.54**	**$15.51**	**$14.96**	**$13.09**
Total Return (%)[c]	(37.36)	4.85	15.20	1.16**
Ratios to Average Net Assets and Supplemental Data				
Net assets, end of period ($ millions)	19	48	57	59
Ratio of expenses before expense reductions (%)	.72	.72	.67	.66*
Ratio of expenses after expense reductions (%)	.63	.65	.63	.63*
Ratio of net investment income (loss) (%)	1.72	1.36	1.37	1.34*
Portfolio turnover rate (%)	6	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 two 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.

The Portfolio adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"), effective at the beginning of the Portfolio's fiscal year. FAS 157 establishes a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and requires additional disclosure about the classification of fair value measurements.

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

The aggregate value by input level, as of December 31, 2008, for the Portfolio's investments, is included at the end of the Portfolio's Investment Portfolio.

New Accounting Pronouncement. In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 ("FAS 161"), "Disclosures about Derivative Instruments and Hedging Activities". FAS 161 requires enhanced disclosure about an entity's derivative and hedging activities including qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Management is currently reviewing the enhanced disclosure requirements for the adoption of FAS 161.

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. When the collateral falls below specified amounts, the lending agents will use their best efforts to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. 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. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Portfolio is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

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 invests in futures to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market.

Upon entering into a futures contract, the 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. Risk of loss may exceed amounts recognized on the Statement of Assets and Liabilities.

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.

At December 31, 2008, DWS Equity 500 Index VIP had a net tax basis capital loss carryforward of approximately $16,672,000, 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, 2008, the Portfolio utilized $633,000 of its prior year capital loss carryforward.

From November 1, 2008 through December 31, 2008, the Portfolio incurred approximately $4,747,000 of net realized capital losses. As permitted by tax regulations, the Portfolio intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2009.

The Portfolio has reviewed the tax positions for the open tax years as of December 31, 2008 and has determined that no provision for income tax is required in the Portfolio's financial statements. The Portfolio's federal tax returns for the prior three fiscal years remain 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 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, 2008, the Portfolio's components of distributable earnings (accumulated gains) on a tax basis were as follows:

Undistributed ordinary income	$ 18,610,390
Capital loss carryforwards	$ (16,672,000)
Unrealized appreciation (depreciation) on investments	$ (181,017,799)

In addition, the tax character of distributions paid to shareholders by the Portfolio is summarized as follows:

	Years Ended December 31, 2008	2007
Distributions from ordinary income	$ 22,632,109	$ 22,902,453

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. 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, 2008, purchases and sales of investment securities (excluding short-term investments) aggregated $50,822,206 and $141,530,509, respectively.

C. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the 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, 2008 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 and interest) as follows:

Class A	.28%
Class B	.53%
Class B2	.63%

Accordingly, for the year ended December 31, 2008, the Advisor waived a portion of its management fee aggregating $417,317 and the amount charged aggregated $1,415,847, which was equivalent to an annual effective rate of 0.15% of the Portfolio's average daily net assets.

In addition, the Advisor reimbursed the Portfolio $13,263 of record keeping fees for Class B2 shares for the year ended December 31, 2008.

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, 2008, DIMA received an Administration fee of $919,349, of which $53,153 is unpaid.

Distribution Service Agreement. DWS Investments Distributors, Inc. ("DIDI"), an affiliate of the Advisor, is the Portfolio's distributor. In accordance with the Distribution Plan, DIDI receives 12b-1 fees of 0.25% of average daily net assets of Class B and B2 shares. For the year ended December 31, 2008, the Distribution Service Fees were as follows:

Distribution Service Fees	Total Aggregated	Unpaid at December 31, 2008
Class B	$ 130,769	$ 8,409
Class B2	76,938	3,854
	$ 207,707	**$ 12,263**

Service Provider Fees. DWS Investments Service Company ("DISC"), 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 DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee they receive from the Portfolio. For the year ended December 31, 2008, the amounts charged to the Portfolio by DISC were as follows:

Services to Shareholders	Total Aggregated	Waived	Unpaid at December 31, 2008
Class A	$ 777	$ 777	$ —
Class B	106	98	8
Class B2	74	74	—
	$ 957	**$ 949**	**$ 8**

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, 2008, the amount charged to the Portfolio by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $10,570, of which $3,801 is unpaid.

Trustees' Fees and Expenses. The Portfolio paid each Trustee not affiliated with the Advisor retainer fees plus specified amounts for various committee services and for the Board Chairperson and Vice Chairperson.

In connection with the board consolidation on April 1, 2008, of the two DWS Portfolio Boards of Directors, certain Independent Board Members retired prior to their normal retirement date, and received a one-time retirement benefit. DIMA has agreed to reimburse the Portfolios for the cost of this benefit. For the year ended December 31, 2008, the Portfolio paid its allocated portion of the retirement benefit of $5,450 to the non-continuing Independent Board Members, and the Portfolio was reimbursed by DIMA for this payment.

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, 2008, the Portfolio's custodian fee was reduced by $459 for custody credits earned.

E. Line of Credit

The Portfolio and other affiliated funds (the "Participants") share in a $490 million revolving credit facility provided by a syndication of banks. The Portfolio may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.35 percent. The Portfolio may borrow up to a maximum of 33 percent of its net assets under the agreement.

F. Ownership of the Portfolio

At December 31, 2008, 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 56% and 14%, respectively. At December 31, 2008, 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 85%. At December 31, 2008, one participating insurance company was a beneficial owner of record of 10% or more of the total outstanding Class B2 shares of the Portfolio, owning 100%.

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, 2008, 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 four years ended December 31, 2008, 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, 2008 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion. The financial highlights of the Portfolio for the period ended on 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, 2009

PricewaterhouseCoopers LLP

Tax Information

(Unaudited)

For corporate shareholders, 90% of the income dividends paid during the Portfolio's fiscal year ended December 31, 2008 qualified as a dividends 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

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 are available on our Web site — www.dws-investments.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 Board of Trustees, including the Independent Trustees, approved the renewal of your Fund's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") and sub-advisory agreement (the "Sub-Advisory Agreement," and together with the Agreement, the "Agreements") between DIMA and Northern Trust Investments, N.A. ("NTI") in September 2008.

In terms of the process that the Board 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. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by the Fund's independent fee consultant. The Board also received extensive information throughout the year regarding performance of the Fund.
- The Trustees regularly meet privately with their independent counsel (and, as needed, other advisors) to discuss contract review and other matters. In addition, the Trustees were also advised by the Fund's independent fee consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the independent fee consultant in connection with their deliberations (the "IFC Report").
- In connection with reviewing the Agreements, the Board also reviewed the terms of the administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Independent Trustees as a group. The Independent Trustees reviewed the Contract Committee's findings and recommendations and presented their recommendations to the full Board.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreements were approved by the Fund's shareholders at a special meeting held in 2006. DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Board believes 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.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's and NTI's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreements, including the scope of advisory services provided under the Agreements. The Board noted that, under the Agreements, DIMA and NTI provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA and NTI to attract and retain high-quality personnel, and the organizational depth and stability of DIMA and NTI. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the independent fee consultant using information supplied by Lipper Inc. ("Lipper"). 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 DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for each of the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 1st quartile of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. 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.

On the basis of this evaluation and the ongoing review of investment results by the Board, the Board concluded that the nature, quality and extent of services provided by DIMA and NTI historically have been and continue to be satisfactory.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, sub-advisory fee schedule, operating expenses, and total expense ratios, and comparative information provided by Lipper and the independent fee consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory fee paid to NTI, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA and certain of its affiliates for comparable mutual funds and considered differences in fund and fee structures between the DWS Funds. 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.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA and NTI.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Investments 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 the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed 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 Investments 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.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also

considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DWS Investments products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of 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.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the continuation of the Agreements is in the best interests of the Fund. In making this determination the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and 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 Agreements.

Summary of Management Fee Evaluation by Independent Fee Consultant

October 24, 2008

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 Funds (formerly 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 2008, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007.

Qualifications

For more than 35 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 ten 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 Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 129 Fund portfolios in the DWS 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 Fund. These similar products included the other DWS 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 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 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 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 Funds are reasonable.

Thomas H. Mack

Thomas H. Mack

Summary of Administrative Fee Evaluation by Independent Fee Consultant

September 29, 2008

Pursuant to an Order entered into by Deutsche Asset Management (DeAM) with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds and have as part of my duties evaluated the reasonableness of the proposed management fees to be charged by DeAM to the DWS Funds, taking onto account a proposal to pass through to the funds certain fund accounting-related charges in connection with new regulatory requirements. My evaluation considered the following:

- While the proposal would alter the services to be provided under the Administration Agreement, which I consider to be part of fund management under the Order, it is my opinion that the change in services is slight and that the scope of prospective services under the combination of the Advisory and Administration Agreements continues to be comparable with those typically provided to competitive funds under their management agreements.
- While the proposal would increase fund expenses, according to a pro forma analysis performed by management, the prospective effect is less than .01% for all but seven of the DeAM Funds' 438 active share classes, and in all cases the effect is less than .03% and overall expenses would remain reasonable in my opinion.

Based on the foregoing considerations, in my opinion the fees and expenses for all of the DWS Funds will remain reasonable if the Directors adopt this proposal.

Thomas H. Mack

Thomas H. Mack

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the Trust as of December 31, 2008. 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. Except as otherwise noted below, 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. The Length of Time Served represents the year in which the Board Member joined the board of one or more DWS funds now overseen by the Board.

Independent Board Members

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in DWS Fund Complex Overseen
Paul K. Freeman (1950) Chairperson since 2009[2] Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Governing Council of the Independent Directors Council (governance, executive committees); formerly, Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	134
Dawn-Marie Driscoll (1946) Board Member since 1987	President, Driscoll Associates (consulting firm); Executive Fellow, Center for Business Ethics, Bentley University; formerly, Partner, Palmer & Dodge (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (1978–1988). Directorships: Trustee of 20 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 University; Trustee, Southwest Florida Community Foundation (charitable organization). Former Directorships: Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	134
John W. Ballantine (1946) Board Member since 1999	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	134
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (media company); Boston Museum of Science; Public Radio International; PRX, The Public Radio Exchange; The PBS Foundation. Former Directorships: American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	134
Keith R. Fox (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds). Directorships: Progressive Holding Corporation (kitchen goods importer and distributor); Box Top Media Inc. (advertising); The Kennel Shop (retailer)	134
Kenneth C. Froewiss (1945) Board Member since 2001	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)	134
Richard J. Herring (1946) Board Member since 1990	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)	134
William McClayton (1944) Board Member since 2004	Managing Director, Diamond Management & Technology Consultants, Inc. (global management consulting firm) (2001–present); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	134
Rebecca W. Rimel (1951) Board Member since 1995	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 (2001–2007); Trustee, Pro Publica (2007–present) (charitable organization). 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[3] (January 2007–June 2007)	134

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in DWS Fund Complex Overseen
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; Trustee of 20 open-end mutual funds managed by Sun Capital Advisers, Inc. (since October 1998). Formerly, Pension & Savings Trust Officer, Sprint Corporation[3] (telecommunications) (November 1989–September 2003)	134
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; Business Leadership Council, Wellesley College. Former Directorships: Service Source, Inc., Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	134
Robert H. Wadsworth (1940) Board Member since 1999	President, Robert H. Wadsworth & Associates, Inc. (consulting firm) (1983 to present); Director, The Phoenix Boys Choir Association	137

Interested Board Member

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Axel Schwarzer[4] (1958) Board Member since 2006	Managing Director[5], Deutsche Asset Management; Head of Deutsche Asset Management Americas; CEO of DWS Investments; 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)	134

Officers[6]

Name, Year of Birth, Position with the Fund and Length of Time Served[7]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Michael G. Clark[8] (1965) President, 2006–present	Managing Director[5], 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[9] (1962) Vice President and Secretary, 1999–present	Director[5], Deutsche Asset Management
Paul H. Schubert[8] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[5], 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)
Caroline Pearson[9] (1962) Assistant Secretary, 1997–present	Managing Director[5], Deutsche Asset Management
Rita Rubin[10] (1970) Assistant Secretary, 2009–present	Vice President and Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007); Attorney, Shearman & Sterling LLP (2004); Vice President and Associate General Counsel, UBS Global Asset Management (2001–2004)
Paul Antosca[9] (1957) Assistant Treasurer, 2007–present	Director[5], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[9] (1967) Assistant Treasurer, 2007–present	Director[5], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[9] (1966) Assistant Treasurer, 2007–present	Director[5], Deutsche Asset Management
Jason Vazquez[10] (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[10] (1962) Chief Compliance Officer, 2006–present	Managing Director[5], 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)

Name, Year of Birth, Position with the Fund and Length of Time Served[7]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
J. Christopher Jackson[10] (1951) Chief Legal Officer, 2006–present	Director[5], 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 *The length of time served represents the year in which the Board Member joined the board of one or more DWS funds currently overseen by the Board.*

2 *Mr. Freeman assumed the Chairperson role as of January 1, 2009. Prior to that Ms. Driscoll served as Chairperson of certain DWS funds since 2004.*

3 *A publicly held company with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.*

4 *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. As an interested person, Mr. Schwarzer receives no compensation from the fund.*

5 *Executive title, not a board directorship.*

6 *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.*

7 *The length of time served represents the year in which the officer was first elected in such capacity for one or more DWS funds.*

8 *Address: 345 Park Avenue, New York, New York 10154.*

9 *Address: One Beacon Street, Boston, MA 02108.*

10 *Address: 280 Park Avenue, New York, New York 10017.*

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

Deutsche Investment Management Americas Inc. ("DIMA"), an indirect, wholly owned subsidiary of Deutsche Bank AG, is the Portfolio's Advisor.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the US, represents the retail 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 Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 778-1482

vit-equ500-2 (R-9043-1 2/09)

DWS INVESTMENTS
Deutsche Bank Group

December 31, 2008

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

RESHAPING INVESTING.

DWS INVESTMENTS

Deutsche Bank Group

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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.

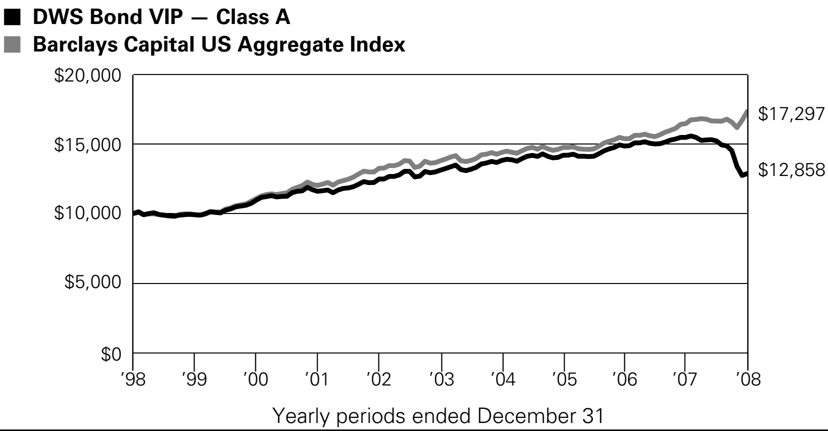
The total annual portfolio operating expense ratio, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 is 0.57% for Class A shares. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2008.

Portfolio returns during 3-year, 5-year and 10-year periods shown reflect a fee waiver and/or expense reimbursement. Without this waiver/reimbursement, returns would have been lower.

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 risks, 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 Barclays Capital US Aggregate Index (name changed from Lehman Brothers US Aggregate Index, effective November 3, 2008) 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	$8,323	$9,080	$9,817	$12,858
	Average annual total return	–16.77%	–3.17%	–.37%	2.55%
Barclays Capital US Aggregate Index	Growth of $10,000	$10,524	$11,745	$12,552	$17,297
	Average annual total return	5.24%	5.51%	4.65%	5.63%

The growth of $10,000 is cumulative.

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**
Beginning Account Value 7/1/08	$1,000.00
Ending Account Value 12/31/08	$ 846.20
Expenses Paid per $1,000*	$ 2.78

Hypothetical 5% Portfolio Return	**Class A**
Beginning Account Value 7/1/08	$1,000.00
Ending Account Value 12/31/08	$1,022.12
Expenses Paid per $1,000*	$ 3.05

* *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 366.*

Annualized Expense Ratios	**Class A**
DWS Variable Series I — DWS Bond VIP	.60%

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

Entering the year, banks were pulling back financing from the markets as they were forced to come to terms with losses related to the subprime mortgage crisis that had emerged in the summer of 2007. As 2008 progressed, ongoing fallout from the collapse in housing and mortgages led to the failure, forced merger or government bailout of a number of leading global financial institutions in both the US and Europe. The result was a further tightening of credit that caused global economic growth to pull back sharply during the fourth quarter. Given this backdrop, investors' risk tolerance approached zero and liquidity all but evaporated. What ensued was a frantic "flight to quality" into the safe haven of US Treasuries and underperformance for all other segments of the bond market. Emerging-market and high-yield corporate bonds underperformed the broader bond market by a wide margin for the year. As investor risk aversion peaked in October and November, even AAA-rated mortgage-backed issues experienced a collapse in demand.[1]

During the 12-month period ended December 31, 2008, the Portfolio provided a total return of –16.77% (Class A shares, unadjusted for contract charges) compared with the 5.24% return of its benchmark, the Barclays Capital US Aggregate Index.

The Portfolio's focus on fixed-income sectors that trade at a yield spread to Treasuries detracted from performance for the period, driven by the unprecedented flight to quality that boosted Treasuries.[2] The Portfolio's high-yield corporate and emerging-market holdings fell significantly, although its relatively defensive positioning helped to limit the downside impact to some degree. Within the domestic portion of the Portfolio, commercial mortgage-backed securities and non-agency residential mortgage-backed securities suffered historically poor performance, especially late in the year. Late in the period, the Portfolio's exposure to high-yield corporate bonds was trimmed as we upgraded the Portfolio's quality profile.

Effective December 1, 2008, Deutsche Investment Management Americas Inc. (the "Advisor") assumed all advisory responsibilities for the portfolio that were previously delegated to the Portfolio's subadvisor and sub-subadvisor. The following portfolio managers handle the day-to-day management of the fund's investment portfolio.

Kenneth R. Bowling, CFA	John Brennan	J. Richard Robben, CFA	J. Kevin Horsley, CFA, CPA
Jamie Guenther, CFA	Bruce Harley, CFA, CEBS	David Vignolo, CFA	Stephen Willer, CFA

The Barclays Capital US Aggregate Index (name changed from Lehman Brothers US Aggregate Index, effective November 3, 2008) 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 *Credit quality (credit rating) 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.*

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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Bond VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Corporate Bonds	24%	19%
Commercial and Non-Agency Mortgage-Backed Securities	22%	35%
Mortgage-Backed Securities Pass-Throughs	20%	15%
Government & Agency Obligations	12%	17%
Collateralized Mortgage Obligations	8%	4%
Cash Equivalents	6%	2%
Municipal Bonds and Notes	5%	2%
Preferred Securities	2%	5%
Asset Backed	1%	1%
	100%	100%

Quality (Excludes Securities Lending Collateral)	**12/31/08**	**12/31/07**
US Government & Treasury Obligations	29%	36%
AAA*	26%	35%
AA	8%	3%
A	8%	7%
BBB	15%	13%
BB or Below	3%	6%
Not Rated	11%	—
	100%	100%

Effective Maturity (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/08**	**12/31/07**
Under 1 year	10%	3%
1–4.99 years	47%	45%
5–9.99 years	27%	41%
10–14.99 years	7%	1%
15+ years	9%	10%
	100%	100%

* *Category includes cash equivalents*

Weighted average effective maturity: 7.43 and 6.99 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. A complete list of portfolio holdings of the Portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 24.1%		
Consumer Discretionary 3.0%		
British Sky Broadcasting Group PLC, 144A, 9.5%, 11/15/2018	590,000	602,333
Comcast Cable Communications Holdings, Inc., 9.455%, 11/15/2022 (b)	235,000	263,284
Comcast Cable Holdings LLC, 10.125%, 4/15/2022	168,000	202,724
Comcast Corp., 6.4%, 5/15/2038	55,000	54,871
D.R. Horton, Inc., 5.375%, 6/15/2012	76,000	56,050
Grupo Televisa SA, 6.0%, 5/15/2018	500,000	420,450
Omnicom Group, Inc., Zero Coupon, 7/31/2032	405,000	386,269
TCI Communications, Inc., 8.75%, 8/1/2015	511,000	543,938
Time Warner Cable, Inc.:		
6.75%, 7/1/2018	445,000	428,448
7.3%, 7/1/2038	40,000	41,555
Time Warner, Inc.:		
7.625%, 4/15/2031	350,000	343,984
7.7%, 5/1/2032	305,000	305,376
Viacom, Inc.:		
5.75%, 4/30/2011	458,000	415,950
6.25%, 4/30/2016	775,000	642,392
		4,707,624
Consumer Staples 1.4%		
CVS Caremark Corp.:		
6.25%, 6/1/2027	332,000	308,694
6.302%, 6/1/2037	1,050,000	535,500
Delhaize America, Inc., 9.0%, 4/15/2031	400,000	404,528
Kroger Co., 6.8%, 4/1/2011	505,000	521,418
Miller Brewing Co., 144A, 5.5%, 8/15/2013	425,000	396,264
		2,166,404
Energy 2.6%		
Baker Hughes, Inc., 7.5%, 11/15/2018	420,000	465,636
Enbridge Energy Partners LP, 8.05%, 10/1/2037	61,000	29,697
Enterprise Products Operating LP:		
Series B, 5.6%, 10/15/2014	680,000	576,937
8.375%, 8/1/2066	82,000	45,100
EOG Co. of Canada, 144A, 7.0%, 12/1/2011	850,000	873,475
Kinder Morgan Energy Partners LP, 6.95%, 1/15/2038	510,000	412,461
Petro-Canada, 6.8%, 5/15/2038	545,000	411,276
Southern Union Co., 7.2%, 11/1/2066	190,000	65,550
TransCanada PipeLines Ltd.:		
5.85%, 3/15/2036	185,000	157,351
6.5%, 8/15/2018	420,000	412,046
Transocean Ltd., Series C, 1.5%, 12/15/2037	415,000	319,550
Transocean, Inc., 6.8%, 3/15/2038	280,000	249,745
		4,018,824

		Principal Amount ($)(a)	Value ($)
Financials 9.3%			
AES El Salvador Trust, 144A, 6.75%, 2/1/2016		475,000	338,581
American Express Credit Corp., Series C, 7.3%, 8/20/2013 (b)		155,000	158,657
American International Group, Inc., 144A, 8.175%, 5/15/2058		170,000	66,134
ANZ National International Ltd., 144A, 6.2%, 7/19/2013		400,000	387,024
Banco Mercantil del Norte SA, 144A, 6.862%, 10/13/2021		362,000	217,200
Bank of New York Mellon Corp., Series G, 4.95%, 11/1/2012 (b)		654,000	663,985
Berkshire Hathaway Finance Corp., 4.6%, 5/15/2013		515,000	514,990
BP Capital Markets PLC, 5.25%, 11/7/2013		735,000	767,293
Discover Financial Services, 2.629%*, 6/11/2010		515,000	440,972
Erac USA Finance Co.:			
144A, 5.8%, 10/15/2012		340,000	284,420
144A, 8.0%, 1/15/2011		330,000	309,569
ESI Tractebel Acquisition Corp., Series B, 7.99%, 12/30/2011		99,000	91,610
Farmers Exchange Capital, 144A, 7.2%, 7/15/2048		385,000	213,391
FPL Group Capital, Inc.:			
6.65%, 6/15/2067		360,000	187,200
Series D, 7.3%, 9/1/2067		20,000	11,200
Glen Meadow Pass-Through Trust, 144A, 6.505%, 2/12/2067		330,000	147,541
HBOS PLC, 144A, 6.75%, 5/21/2018		175,000	154,017
John Deere Capital Corp., Series D, 2.875%, 6/19/2012 (b)		3,000,000	3,085,473
JPMorgan Chase & Co., 5.125%, 9/15/2014		435,000	421,549
Merrill Lynch & Co., Inc.:			
6.875%, 4/25/2018		245,000	256,276
7.75%, 5/14/2038		455,000	501,265
Metropolitan Life Global Funding I, 144A, 5.125%, 4/10/2013		565,000	526,444
Morgan Stanley, Series F, 6.0%, 4/28/2015		955,000	823,907
National Australia Bank Ltd., 144A, 5.35%, 6/12/2013		435,000	419,257
National Rural Utilities Cooperative Finance Corp., 10.375%, 11/1/2018		630,000	737,357
NLV Financial Corp., 144A, 6.5%, 3/15/2035		734,000	465,665
NYSE Euronext, 4.8%, 6/28/2013		455,000	441,329
Red Arrow International Leasing, "A", 8.375%, 6/30/2012	RUB	2,685,435	32,540
SPI Electricity & Gas Australia Holdings Property Ltd., 144A, 6.15%, 11/15/2013		425,000	425,895
Standard Chartered Bank, 144A, 6.4%, 9/26/2017		345,000	286,940

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

	Principal Amount ($)(a)	Value ($)
UDR, Inc., Series E, (REIT), 3.9%, 3/15/2010	245,000	212,453
US Bancorp., 0.704%*, 12/11/2035	255,000	232,688
Wells Fargo & Co., 5.25%, 10/23/2012	210,000	213,892
Xstrata Finance Canada Ltd., 144A, 6.9%, 11/15/2037	585,000	350,024
		14,386,738
Health Care 0.9%		
Advanced Medical Optics, Inc., 7.5%, 5/1/2017	21,000	10,710
Medco Health Solutions, Inc.:		
6.125%, 3/15/2013	725,000	676,065
7.125%, 3/15/2018	715,000	660,727
		1,347,502
Industrials 0.6%		
Allied Waste North America, Inc., 7.875%, 4/15/2013	193,000	183,350
America West Airlines, Inc., Series 99-1, 7.93%, 1/2/2019	196,587	157,761
Northwest Pipelines Corp., 5.95%, 4/15/2017 (b)	450,000	394,875
Overseas Shipholding Group, Inc., 7.5%, 2/15/2024	58,000	38,570
Toll Corp., 8.25%, 12/1/2011 (b)	83,000	75,530
		850,086
Information Technology 0.9%		
Broadridge Financial Solutions, Inc., 6.125%, 6/1/2017	114,000	82,771
International Business Machines Corp., 6.5%, 10/15/2013	200,000	219,247
Tyco Electronics Group SA, 6.0%, 10/1/2012	695,000	626,962
Xerox Corp.:		
6.35%, 5/15/2018	415,000	324,569
7.2%, 4/1/2016 (b)	175,000	130,660
		1,384,209
Materials 0.1%		
Pliant Corp., 11.85%, 6/15/2009 (PIK)	7	4
Sappi Papier Holding AG, 144A, 6.75%, 6/15/2012	85,000	63,456
The Mosaic Co., 144A, 7.375%, 12/1/2014	157,000	128,740
		192,200
Telecommunication Services 1.8%		
AT&T, Inc., 6.7%, 11/15/2013 (b)	790,000	836,864
Cellco Partnership:		
144A, 7.375%, 11/15/2013	295,000	311,249
144A, 8.5%, 11/15/2018	370,000	433,520
Telecom Italia Capital:		
6.2%, 7/18/2011	175,000	155,313
7.721%, 6/4/2038 (b)	310,000	254,587
Verizon Communications, Inc.:		
5.25%, 4/15/2013 (b)	105,000	105,402
8.75%, 11/1/2018	595,000	698,067
		2,795,002
Utilities 3.5%		
Baltimore Gas & Electric Co., 6.35%, 10/1/2036	260,000	213,975
CenterPoint Energy Resources Corp., 7.75%, 2/15/2011 (b)	500,000	478,575
CMS Energy Corp., 8.5%, 4/15/2011	17,000	16,742
Commonwealth Edison Co.:		
Series 98, 6.15%, 3/15/2012	550,000	536,046
6.95%, 7/15/2018	310,000	293,500
Dominion Resources, Inc.:		
Series 06-B, 6.3%, 9/30/2066	330,000	148,500
7.5%, 6/30/2066	935,000	467,500
Energy Future Competitive Holdings Corp., 7.48%, 1/1/2017	339,527	199,611
Integrys Energy Group, Inc., 6.11%, 12/1/2066	580,000	278,400
Intergen NV, 144A, 9.0%, 6/30/2017	75,000	61,500
Majapahit Holding BV, REG S, 7.75%, 10/17/2016	100,000	55,030
New York State Electric & Gas Corp., 144A, 6.15%, 12/15/2017	1,055,000	960,151
Orion Power Holdings, Inc., 12.0%, 5/1/2010	120,000	120,000
PNM Resources, Inc., 9.25%, 5/15/2015	99,000	78,705
PPL Capital Funding, Inc., Series A, 6.7%, 3/30/2067	830,000	365,200
Regency Energy Partners LP, 8.375%, 12/15/2013	176,000	120,560
Union Electric Co., 6.7%, 2/1/2019	645,000	587,712
Wisconsin Energy Corp., Series A, 6.25%, 5/15/2067	955,000	472,725
		5,454,432
Total Corporate Bonds (Cost $42,540,818)		**37,303,021**

Asset-Backed 0.9%

	Principal Amount ($)(a)	Value ($)
Automobile Receivables 0.3%		
Household Automotive Trust, "A4", Series 2006-1, 5.52%, 3/18/2013	500,000	**436,736**
Credit Card Receivables 0.5%		
Household Credit Card Master Note Trust I, "A", Series 2007-1, 1.245%*, 4/15/2013	1,214,000	**763,094**
Home Equity Loans 0.1%		
First Franklin Mortgage Loan Asset-Backed Certificates, "A2A", Series 2007-FFC, 0.621%*, 6/25/2027	724,280	**247,171**
Total Asset-Backed (Cost $2,044,101)		**1,447,001**

Mortgage-Backed Securities Pass-Throughs 19.9%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
5.305%*, 6/1/2035	819,092	829,021
5.5%, with various maturities from 10/1/2023 until 8/1/2024	696,646	715,422
5.518%*, 2/1/2038	962,067	972,746
6.5%, 3/1/2026	1,261,082	1,329,313
7.0%, 1/1/2038	400,870	417,390
Federal National Mortgage Association:		
4.5%, 6/1/2034	942,222	957,496
5.0%, with various maturities from 2/1/2021 until 5/1/2034	2,696,107	2,766,544

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

	Principal Amount ($)(a)	Value ($)
5.166%*, 9/1/2038	881,106	893,001
5.458%*, 1/1/2038	1,080,059	1,103,891
5.5%, with various maturities from 1/1/2025 until 7/1/2037	14,265,130	14,608,005
6.0%, with various maturities from 4/1/2024 until 3/1/2025	1,287,328	1,335,000
6.5%, with various maturities from 3/1/2017 until 1/1/2038	4,692,261	4,883,148
8.0%, 9/1/2015	27,461	29,161
Total Mortgage-Backed Securities Pass-Throughs (Cost $29,878,224)		**30,840,138**

Commercial and Non-Agency Mortgage-Backed Securities 21.7%

	Principal Amount ($)(a)	Value ($)
Adjustable Rate Mortgage Trust, "3A31", Series 2005-10, 5.414%*, 1/25/2036	820,000	397,062
American Home Mortgage Investment Trust, "5A3", Series 2005-2, 5.077%, 9/25/2035	990,124	821,632
Banc of America Commercial Mortgage, Inc., "A4", Series 2007-3, 5.658%*, 6/10/2049	1,085,000	793,540
Banc of America Mortgage Securities, Inc., "1A20", Series 2005-3, 5.5%, 4/25/2035	1,095,000	913,932
Bear Stearns Adjustable Rate Mortgage Trust:		
"A1", Series 2006-1, 4.625%*, 2/25/2036	1,681,536	1,066,877
"3A1", Series 2007-5, 5.98%*, 8/25/2047	1,514,696	877,432
Bear Stearns Commercial Mortgage Securities, "AAB", Series 2007-PW16, 5.712%*, 6/11/2040	1,200,000	860,543
Chase Mortgage Finance Corp., "3A1", Series 2007-A3, 5.98%*, 12/25/2037	844,049	547,737
Citigroup Mortgage Loan Trust, Inc., "2A1A", Series 2007-AR8, 5.912%*, 7/25/2037	648,531	382,525
Citigroup/Deutsche Bank Commercial Mortgage Trust, "A4", Series 2007-CD4, 5.322%, 12/11/2049	1,460,000	1,019,221
Countrywide Alternative Loan Trust:		
"1A1", Series 2004-2CB, 4.25%, 3/25/2034	251,106	219,831
"A1", Series 2004-1T1, 5.0%, 2/25/2034	278,089	234,253
"A2", Series 2002-18, 5.25%, 2/25/2033	577,033	503,326
"A2", Series 2003-21T1, 5.25%, 12/25/2033	481,789	420,871
"A2", Series 2004-1T1, 5.5%, 2/25/2034	184,689	157,015
Countrywide Home Loans:		
"A1", Series 2005-29, 5.75%, 12/25/2035	1,139,228	830,925
"A2", Series 2006-1, 6.0%, 3/25/2036	824,918	552,180
Credit Suisse Mortgage Capital Certificates, Inc.:		
"3A1", Series 2006-9, 6.0%, 11/25/2036	1,250,046	661,743

	Principal Amount ($)(a)	Value ($)
"3A19", Series 2007-5, 6.0%, 8/25/2037	1,044,058	845,035
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	209,125	161,067
GMAC Mortgage Corp. Loan Trust, "A1", Series 2006-J1, 5.75%, 4/25/2036	1,005,635	710,288
Greenwich Capital Commercial Funding Corp.:		
"AM", Series 2007-GG9, 5.475%, 3/10/2039	1,025,000	519,432
"AJ", Series 2007-GG9, 5.505%, 3/10/2039	108,000	28,114
"A4", Series 2007-GG11, 5.736%, 12/10/2049	700,000	522,610
GS Mortgage Securities Corp. II:		
"AAB", Series 2007-GG10, 5.799%*, 8/10/2045	1,620,000	1,131,789
"J", Series 2007-GG10, 144A, 5.799%*, 8/10/2045	1,096,000	80,398
"K", Series 2007-GG10, 144A, 5.799%*, 8/10/2045	767,000	47,660
"AM", Series 2007-GG10, 5.799%*, 8/10/2045	225,000	103,040
"A4", Series 2007-GG10, 5.799%*, 8/10/2045	1,235,000	896,186
GSR Mortgage Loan Trust, "1A1", Series 2007-AR2, 5.775%*, 5/25/2047	1,118,821	575,185
Indymac Inda Mortgage Loan Trust, "1A2", Series 2007-AR1, 5.703%*, 3/25/2037	995,778	667,417
Indymac Index Mortgage Loan Trust, "3A1", Series 2006-AR33, 5.766%*, 1/25/2037	717,807	467,589
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"ASB", Series 2007-CB19, 5.73%*, 2/12/2049	880,000	638,654
"A4", Series 2007-LD11, 5.819%*, 6/15/2049	805,000	568,512
"F", Series 2007-LD11, 5.819%*, 6/15/2049	650,000	94,346
"G", Series 2007-LD11, 144A, 5.819%*, 6/15/2049	760,000	105,148
"H", Series 2007-LD11, 144A, 5.819%*, 6/15/2049	460,000	45,124
"E", Series 2007-LD11, 5.819%*, 6/15/2049	590,000	88,913
"ASB", Series 2007-LD12, 5.833%*, 2/15/2051	1,175,000	855,398
"A4", Series 2007-LD12, 5.882%*, 2/15/2051	575,000	408,911
"AM", Series 2007-LD12, 6.062%*, 2/15/2051	800,000	375,675
JPMorgan Mortgage Trust, "2A4", Series 2006-A2, 5.754%*, 4/25/2036	1,420,000	611,691
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	690,000	490,950
Master Alternative Loans Trust:		
"5A1", Series 2005-2, 6.5%, 12/25/2034	103,844	61,105
"8A1", Series 2004-3, 7.0%, 4/25/2034	18,972	14,128

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	Principal Amount ($)(a)	Value ($)
Merrill Lynch Mortgage Investors Trust, "A2", Series 2005-A5, 4.566%, 6/25/2035	105,000	60,288
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 5.829%*, 6/12/2050	590,000	420,302
Merrill Lynch/Countrywide Commercial Mortgage Trust, "ASB", Series 2007-5, 5.362%, 8/12/2048	1,000,000	705,684
Morgan Stanley Capital I:		
"AM", Series 2007-HQ12, 5.632%*, 4/12/2049	600,000	275,268
"AAB", Series 2007-IQ14, 5.654%, 4/15/2049	1,105,000	786,085
New York Mortgage Trust, "2A3", Series 2006-1, 5.652%*, 5/25/2036	1,100,000	546,424
Residential Accredit Loans, Inc., "CB", Series 2004-QS2, 5.75%, 2/25/2034	489,789	308,261
Structured Adjustable Rate Mortgage Loan Trust:		
"1A4", Series 2005-22, 5.25%, 12/25/2035	1,160,000	429,604
"6A3", Series 2005-21, 5.4%, 11/25/2035	740,000	307,107
"7A4", Series 2006-1, 5.62%, 2/25/2036	930,000	361,805
Structured Asset Securities Corp., "2A1", Series 2003-1, 6.0%, 2/25/2018	3,722	3,564
SunTrust Adjustable Rate Mortgage Loan Trust, "3A1", Series 2007-4, 5.993%*, 10/25/2037	1,517,528	989,329
Wachovia Bank Commercial Mortgage Trust:		
"APB", Series 2007-C30, 5.294%, 12/15/2043	610,000	429,741
"H", Series 2007-C32, 144A, 5.741%*, 6/15/2049	770,000	74,447
"ABP", Series 2007-C32, 5.741%*, 6/15/2049	720,000	516,576
Washington Mutual Mortgage Pass-Through Certificates Trust:		
"1A3", Series 2005-AR16, 5.102%*, 12/25/2035	825,000	440,113
"1A1", Series 2006-AR18, 5.339%*, 1/25/2037	1,105,673	622,858
"4A1", Series 2007-HY3, 5.347%*, 3/25/2037	1,492,793	854,087
"2A3", Series 2006-AR6, 5.948%*, 8/25/2036	1,055,000	484,944
Wells Fargo Mortgage Backed Securities Trust:		
"B1", Series 2005-AR12, 4.362%*, 7/25/2035	755,886	242,760
"2A5", Series 2006-AR2, 5.093%*, 3/25/2036	2,388,990	1,480,531
"A4", Series 2005-AR14, 5.387%*, 8/25/2035	945,000	483,934
"2A5", Series 2006-AR1, 5.548%*, 3/25/2036	935,000	374,861
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $55,383,179)		**33,573,583**

Collateralized Mortgage Obligations 7.5%

	Principal Amount ($)(a)	Value ($)
Fannie Mae Whole Loan, "1A1", Series 2004-W15, 6.0%, 8/25/2044	271,150	281,813
Federal Home Loan Mortgage Corp.:		
"WJ", Series 2557, 5.0%, 7/15/2014	213,535	214,985
"TA", Series 2750, 5.0%, 2/15/2032	1,010,000	1,031,985
"PD", Series 2774, 5.0%, 8/15/2032	1,010,000	1,032,001
"ME", Series 2775, 5.0%, 12/15/2032	460,000	469,978
"EG", Series 2836, 5.0%, 12/15/2032	1,580,000	1,612,718
"PD", Series 2893, 5.0%, 2/15/2033	800,000	816,021
"OG", Series 2889, 5.0%, 5/15/2033	685,000	698,229
"PE", Series 2898, 5.0%, 5/15/2033	335,000	341,515
"PD", Series 2939, 5.0%, 7/15/2033	535,000	543,582
"KG", Series 2987, 5.0%, 12/15/2034	1,470,000	1,488,632
Federal National Mortgage Association:		
"EG", Series 2005-22, 5.0%, 11/25/2033	750,000	761,479
"WD", Series 2005-86, 5.0%, 3/25/2034	1,525,000	1,550,845
"PG", Series 2002-3, 5.5%, 2/25/2017	424,841	434,090
"TC", Series 2007-77, 5.5%, 9/25/2034	370,000	380,162
"ZQ", Series G92-9, 7.0%, 12/25/2021	19,200	19,211
Total Collateralized Mortgage Obligations (Cost $11,256,691)		**11,677,246**

Government & Agency Obligations 12.0%

Sovereign Bonds 2.0%

		Principal Amount ($)(a)	Value ($)
Dominican Republic, REG S, 8.625%, 4/20/2027		200,000	102,000
Government of Indonesia:			
REG S, 8.5%, 10/12/2035		100,000	83,912
Series FR-49, 9.0%, 9/15/2013	IDR	700,000,000	56,344
Series FR-23, 11.0%, 12/15/2012	IDR	1,600,000,000	141,885
Series FR-18, 13.175%, 7/15/2012	IDR	270,000,000	25,462
Series FR-16, 13.45%, 8/15/2011	IDR	480,000,000	45,188
Government of Ukraine, REG S, 6.75%, 11/14/2017		390,000	142,754
Mexican Bonds:			
Series A, 6.05%, 1/11/2040		90,000	87,300
Series M-10, 7.25%, 12/15/2016	MXN	800,000	55,359
Series M-20, 10.0%, 12/5/2024	MXN	700,000	58,063
Series M-30, 10.0%, 11/20/2036	MXN	1,700,000	144,755

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

		Principal Amount ($)(a)	Value ($)
Nota do Tesouro Nacional, 10.0%, 1/1/2017	BRL	810,000	303,096
Republic of Argentina:			
GDP Linked Note, 12/15/2035		410,000	9,835
3.0%*, 4/30/2013		43,750	23,577
Series X, 7.0%, 4/17/2017		260,000	90,249
Republic of Egypt, 9.1%, 9/20/2012	EGP	230,000	38,818
Republic of El Salvador:			
REG S, 7.65%, 6/15/2035		90,000	57,600
REG S, 8.25%, 4/10/2032		40,000	26,000
Republic of Georgia, 7.5%, 4/15/2013		170,000	98,812
Republic of Panama:			
6.7%, 1/26/2036		170,000	153,000
7.125%, 1/29/2026		220,000	207,350
7.25%, 3/15/2015		80,000	81,600
Republic of Philippines:			
7.75%, 1/14/2031		100,000	101,000
8.25%, 1/15/2014		70,000	72,800
9.0%, 2/15/2013		120,000	127,200
9.5%, 2/2/2030		60,000	67,200
Republic of Serbia, REG S, Step-up Coupon, 3.75% to 11/1/2009, 6.75% to 11/1/2024		90,000	54,000
Republic of Turkey:			
Series CPI, 10.0%, 2/15/2012	TRY	190,045	112,045
16.0%, 3/7/2012	TRY	220,000	139,683
Republic of Uruguay:			
7.625%, 3/21/2036		10,000	8,400
7.875%, 1/15/2033 (PIK)		160,000	137,600
8.0%, 11/18/2022		70,000	64,750
State of Qatar, REG S, 9.75%, 6/15/2030		140,000	172,200
			3,089,837

US Government Sponsored Agencies 0.9%

	Principal Amount ($)(a)	Value ($)
Federal National Mortgage Association, 6.625%, 11/15/2030 (b)	950,000	**1,371,612**

US Treasury Obligations 9.1%

	Principal Amount ($)(a)	Value ($)
US Treasury Bill, 0.13%**, 6/18/2009	327,000	326,759
US Treasury Bonds:		
4.75%, 2/15/2037	460,000	640,981
8.125%, 8/15/2019 (b)	5,590,000	8,261,847
US Treasury Notes:		
1.75%, 11/15/2011 (b)	3,750,000	3,835,537
3.5%, 2/15/2018	560,000	619,850
4.5%, 4/30/2012	400,000	443,000
		14,127,974
Total Government & Agency Obligations (Cost $18,990,198)		**18,589,423**

Municipal Bonds and Notes 5.1%

	Principal Amount ($)(a)	Value ($)
Alameda, CA, Corridor Transportation Authority Revenue, Series C, 6.6%, 10/1/2029 (c)	525,000	483,903
Chicago, IL, Transit Authority, Transfer Tax Receipts Revenue, Series B, 6.3%, 12/1/2021	1,200,000	1,181,412
Florida, State Board of Education, Capital Outlay 2006, Series E, 5.0%, 6/1/2035	465,000	442,099
Gwinnett County, GA, Development Authority Revenue, Gwinnett Stadium Project, 6.4%, 1/1/2028	655,000	647,487
Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013	670,000	684,499
Los Angeles, CA, Community Development Agency Tax Allocation Revenue, Adelante Eastside Project, Series C, 6.49%, 9/1/2037 (c)	325,000	245,788
McLennan County, TX, Junior College, 5.0%, 8/15/2032 (c)	340,000	320,651
New Jersey, Economic Development Authority Revenue, Series B, 6.5%, 11/1/2013 (c)	860,000	900,067
Port Authority New York & New Jersey, One Hundred Fiftieth Series, 4.75%, 9/15/2016	930,000	849,034
Rhode Island, Convention Center Authority Revenue, Civic Center, Series A, 6.06%, 5/15/2035 (c)	515,000	492,664
Virgin Islands, Port Authority Marine Revenue, Series B, 5.08%, 9/1/2013 (c)	1,420,000	1,428,222
Washington, Central Puget Sound, Regional Transit Authority, Sales & Use Tax Revenue, Series A, 5.0%, 11/1/2036	285,000	267,102
Total Municipal Bonds and Notes (Cost $8,179,659)		**7,942,928**

Loan Participations and Assignments 0.1%

Sovereign Loans

		Principal Amount ($)(a)	Value ($)
Gazprombank, 7.25%, 2/22/2010	RUB	2,000,000	48,148
Russian Agricultural Bank, REG S, 7.75%, 5/29/2018		100,000	63,732
Total Loan Participations and Assignments (Cost $177,519)			**111,880**

Preferred Securities 2.0%

Financials

	Principal Amount ($)(a)	Value ($)
Bank of America Corp.:		
Series K, 8.0%, 1/30/2018 (d)	390,000	280,522
Series M, 8.125%, 5/15/2018 (d)	705,000	527,340
Citigroup Capital XXI, 8.3%, 12/21/2057	490,000	377,906
Citigroup, Inc., Series E, 8.4%, 4/30/2018 (d)	628,000	414,662
ComEd Financing III, 6.35%, 3/15/2033	238,000	149,150
PNC Preferred Funding Trust I, 144A, 8.7%, 3/15/2013 (d)	700,000	517,433
Royal Bank of Scotland Group PLC:		
144A, 6.99%, 10/5/2017(d)	800,000	374,029
Series U, 7.64%, 9/29/2017 (d)	1,000,000	398,284
Total Preferred Securities (Cost $4,236,666)		**3,039,326**

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

	Shares	Value ($)
Preferred Stocks 0.2%		
Financials		
XL Capital Ltd., Series C, 6.102%	21,600	220,679
Ford Motor Credit Co., LLC, 7.375%	1,180	12,744
Total Preferred Stocks (Cost $552,242)		**233,423**

	Shares	Value ($)
Securities Lending Collateral 8.0%		
Daily Assets Fund Institutional, 1.69% (e) (f) (Cost $12,381,645)	12,381,645	**12,381,645**

	Shares	Value ($)
Cash Equivalents 5.8%		
Cash Management QP Trust, 1.42% (e) (Cost $8,910,588)	8,910,588	**8,910,588**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $194,531,530)†	107.3	**166,050,202**
Other Assets and Liabilities, Net	(7.3)	**(11,226,690)**
Net Assets	100.0	**154,823,512**

* *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, 2008.*

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

† *The cost for federal income tax purposes was $194,554,381. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $28,504,179. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,482,477 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $31,986,656.*

(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, 2008 amounted to $11,972,348, which is 7.7% of net assets.*

(c) *Bond is insured by one of these companies:*

Insurance Coverage	As a % of Total Investment Portfolio
Assured Guaranty Corp.	0.5
Financial Guaranty Insurance Co.	1.4
MBIA Corp.	0.3
Radian	0.1

(d) *Date shown is call date; not a maturity date for the perpetual preferred securities.*

(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.*

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.

REG S: Securities sold under Regulation S may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933.

REIT: Real Estate Investment Trust

As of December 31, 2008, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
JPY	623,043	AUD	11,000	1/23/2009	324
AUD	38,551	JPY	2,553,509	1/23/2009	1,937
RUB	2,607,000	USD	89,297	1/23/2009	7,271
NZD	351,000	USD	213,837	1/23/2009	9,494
USD	398,069	NZD	729,000	1/23/2009	26,336
TRY	278,000	USD	195,651	1/23/2009	17,203
MXN	1,622,000	USD	134,803	1/23/2009	18,657
USD	233,775	EUR	184,000	1/23/2009	21,721
Total unrealized appreciation					**102,943**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
USD	275,234	NOK	1,689,000	1/23/2009	(34,459)
USD	80,185	UAH	416,000	1/23/2009	(26,810)
AUD	349,000	USD	226,569	1/23/2009	(16,106)
BRL	338,000	USD	134,324	1/23/2009	(9,256)

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
EUR	184,000	USD	251,473	1/23/2009	(4,022)
USD	214,682	AUD	305,000	1/23/2009	(2,603)
IDR	845,167,000	USD	74,333	1/23/2009	(2,130)
JPY	2,163,509	USD	22,690	1/23/2009	(1,188)
USD	23,182	AUD	33,000	1/23/2009	(866)
NZD	378,000	USD	219,494	1/23/2009	(568)
JPY	390,000	USD	3,852	1/23/2009	(453)
NOK	1,689,000	USD	240,489	1/23/2009	(286)
Total unrealized depreciation					**(98,747)**

Currency Abbreviations

AUD	Australian Dollar	JPY	Japanese Yen	RUB	Russian Ruble
BRL	Brazilian Real	MXN	Mexican Peso	TRY	Turkish Lira
EGP	Egyptian Pound	NOK	Norwegian Krone	UAH	Ukraine Hryvna
EUR	Euro	NZD	New Zealand Dollar	USD	United States Dollar
IDR	Indonesian Rupiah				

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.

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the tables below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities	Other Financial Instruments††
Level 1	$ 12,394,389	$ —
Level 2	153,306,176	4,196
Level 3	349,637	—
Total	**$ 166,050,202**	**$ 4,196**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as forward foreign currency exchange contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

The following is a reconciliation of the Portfolio's Level 3 investments for which significant unobservable inputs were used in determining value at December 31, 2008:

	Investments in Securities
Balance as of January 1, 2008	$ 1,298,669
Total realized gain (loss)	(131,401)
Change in unrealized appreciation (depreciation)	(481,826)
Amortization Premium/Discount	(930)
Net purchases (sales)	(334,875)
Net transfers in (out) of Level 3	—
Balance as of December 31, 2008	**$ 349,637**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments: Investments in securities, at value (cost \$173,239,297), including \$11,972,348 of securities loaned	\$	144,757,969
Investment in Daily Assets Fund Institutional (cost \$12,381,645)*		12,381,645
Investment in Cash Management QP Trust (cost \$8,910,588)		8,910,588
Total investments, at value (cost \$194,531,530)		166,050,202
Cash		9,960
Foreign currency, at value (cost \$49,360)		49,043
Receivable for investments sold		329,776
Dividends receivable		563
Interest receivable		1,515,002
Receivable for Portfolio shares sold		5,909
Foreign taxes recoverable		6,132
Net receivable on closed forward foreign currency exchange contracts		13,927
Unrealized appreciation on open forward foreign currency exchange contracts		102,943
Other assets		5,559
Total assets		168,089,016
Liabilities		
Payable for Portfolio shares redeemed		626,892
Payable upon return of securities loaned		12,381,645
Unrealized depreciation on open forward foreign currency exchange contracts		98,747
Accrued management fee		47,703
Other accrued expenses and payables		110,517
Total liabilities		13,265,504
Net assets, at value	**\$**	**154,823,512**
Net Assets Consist of		
Undistributed net investment income		11,846,280
Net unrealized appreciation (depreciation) on: Investments		(28,481,328)
Foreign currency		2,245
Accumulated net realized gain (loss)		(21,419,194)
Paid-in capital		192,875,509
Net assets, at value	**\$**	**154,823,512**
Class A		
Net Asset Value, offering and redemption price per share (\$154,823,512 ÷ 28,147,936 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**\$**	**5.50**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Dividends	\$	40,393
Interest (net of foreign taxes withheld of \$2,141)		12,376,086
Interest — Cash Management QP Trust		132,373
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		191,513
Total Income		12,740,365
Expenses: Management fee		782,296
Administration fee		200,589
Custodian fee		41,210
Distribution service fee (Class B)		506
Services to shareholders		1,629
Record keeping fee (Class B)		202
Professional fees		85,778
Trustees' fees and expenses		6,830
Reports to shareholders		41,760
Other		33,183
Total expenses before expense reductions		1,193,983
Expense reductions		(1,769)
Total expenses after expense reductions		1,192,214
Net investment income		**11,548,151**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from: Investments (net of foreign taxes of \$1,058)		(20,123,676)
Futures		226,776
Foreign currency		331,617
Payments by affiliates (see Note H)		221
		(19,565,062)
Change in net unrealized appreciation (depreciation) on: Investments		(26,247,691)
Foreign currency		(35,300)
		(26,282,991)
Net gain (loss)		**(45,848,053)**
Net increase (decrease) in net assets resulting from operations	**\$**	**(34,299,902)**

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, 2008	2007
Operations:		
Net investment income	$ 11,548,151	$ 11,251,529
Net realized gain (loss)	(19,565,062)	(121,794)
Change in net unrealized appreciation (depreciation)	(26,282,991)	(1,978,095)
Net increase (decrease) in net assets resulting from operations	(34,299,902)	9,151,640
Distributions to shareholders from:		
Net investment income:		
Class A	(10,882,399)	(10,313,794)
Class B	(31,809)	(83,297)
Total distributions	(10,914,208)	(10,397,091)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	21,447,131	38,092,545
Reinvestment of distributions	10,882,399	10,313,794
Cost of shares redeemed	(61,233,965)	(36,534,184)
Net increase (decrease) in net assets from Class A share transactions	(28,904,435)	11,872,155
Class B*		
Proceeds from shares sold	292,257	1,299,403
Reinvestment of distributions	31,809	83,297
Cost of shares redeemed	(890,260)	(2,108,764)
Net increase (decrease) in net assets from Class B share transactions	(566,194)	(726,064)
Increase (decrease) in net assets	(74,684,739)	9,900,640
Net assets at beginning of period	229,508,251	219,607,611
Net assets at end of period (including undistributed net investment income of $11,846,280 and $10,802,062, respectively)	**$ 154,823,512**	**$ 229,508,251**

Other Information		
Class A		
Shares outstanding at beginning of period	32,791,859	31,026,023
Shares sold	3,262,319	5,515,644
Shares issued to shareholders in reinvestment of distributions	1,674,215	1,510,072
Shares redeemed	(9,580,457)	(5,259,880)
Net increase (decrease) in Class A shares	(4,643,923)	1,765,836
Shares outstanding at end of period	**28,147,936**	**32,791,859**
Class B*		
Shares outstanding at beginning of period	87,887	198,161
Shares sold	42,354	183,436
Shares issued to shareholders in reinvestment of distributions	4,894	12,196
Shares redeemed	(135,135)	(305,906)
Net increase (decrease) in Class B shares	(87,887)	(110,274)
Shares outstanding at end of period	**—**	**87,887**

* *On May 22, 2008 Class B shares were liquidated.*

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.98**	**$ 7.03**	**$ 6.99**	**$ 7.13**	**$ 7.04**
Income (loss) from investment operations:					
Net investment income[a]	.37	.35	.33	.29	.29
Net realized and unrealized gain (loss)	(1.48)	(.06)	(.01)	(.10)	.08
Total from investment operations	(1.11)	.29	.32	.19	.37
Less distributions from:					
Net investment income	(.37)	(.34)	(.27)	(.26)	(.28)
Net realized gains	—	—	(.01)	(.07)	—
Total distributions	(.37)	(.34)	(.28)	(.33)	(.28)
Net asset value, end of period	**$ 5.50**	**$ 6.98**	**$ 7.03**	**$ 6.99**	**$ 7.13**
Total Return (%)	(16.77)	4.18	4.72[b]	2.60	5.38
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	155	229	218	209	177
Ratio of expenses before expense reductions (%)	.59	.61	.66	.68	.60
Ratio of expenses after expense reductions (%)	.59	.61	.62	.68	.60
Ratio of net investment income (%)	5.76	5.03	4.82	4.11	4.18
Portfolio turnover rate (%)	196	185	186	197	245

[a] *Based on average shares outstanding during the period.*
[b] *Total return would have been lower had certain expenses not been reduced.*

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.

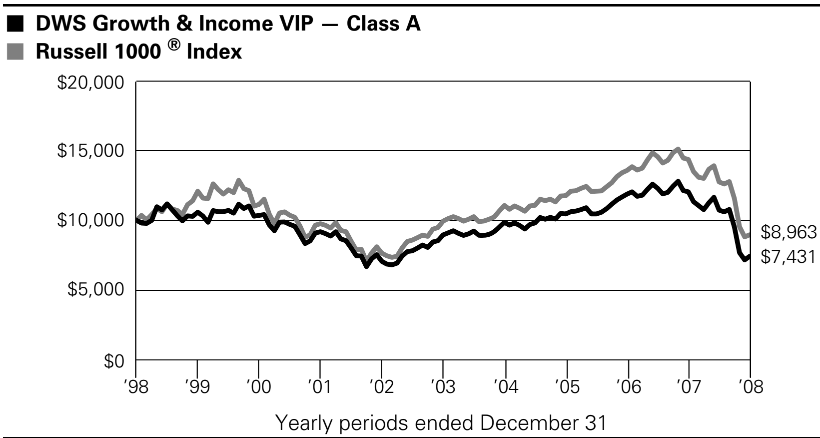
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.54% and 0.79% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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.

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	$6,169	$7,105	$8,301	$7,431
	Average annual total return	–38.31%	–10.77%	–3.65%	–2.93%
Russell 1000 Index	Growth of $10,000	$6,240	$7,621	$9,022	$8,963
	Average annual total return	–37.60%	–8.66%	–2.04%	–1.09%

DWS Growth & Income VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$6,171	$7,060	$8,195	$7,238
	Average annual total return	–38.29%	–10.95%	–3.90%	–3.18%
Russell 1000 Index	Growth of $10,000	$6,240	$7,621	$9,022	$8,963
	Average annual total return	–37.60%	–8.66%	–2.04%	–1.09%

The growth of $10,000 is cumulative.

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 691.90	$ 693.80
Expenses Paid per $1,000*	$ 2.30	$ 2.90
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,022.42	$1,021.72
Expenses Paid per $1,000*	$ 2.75	$ 3.46

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Growth & Income VIP	.54%	.68%

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, 2008

DWS Growth & Income VIP

The year just ended was the worst in many decades for the US equity markets. Essentially all equity indices posted negative returns for this period, as markets reflected economic problems including a housing slump, rising unemployment, a crisis of confidence and an extreme credit crunch. The Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, had a negative return of –37.31% for the 12 months ended December 31, 2008. With a return of –38.31% during the period ended December 31, 2008 (Class A shares, unadjusted for contract charges), the Portfolio's return was in line with that of the Russell 1000® Index, which posted a return of –37.60%.

Contributors to the Portfolio's relative performance were underweights and stock selection in the financials and consumer discretionary sectors.[1] In the financials sector, the Portfolio's performance benefited from not owning many of the worst-performing stocks. In the consumer discretionary sector, performance benefited from overweight positions in The DIRECTV Group, Inc., AutoZone, Inc. and McDonald's Corp.

A detractor from the Portfolio's relative performance was stock selection in the energy and materials sectors. In the energy sector, performance was hurt by an underweight position in ExxonMobil Corp., which was down less than the sector, and by overweights in coal producers Walter Industries, Inc. and Massey Energy Co. In the materials sector, overweight positions in Terra Industries Inc. and CF Industries Holdings Inc., both of which produce fertilizer and other agricultural products, detracted from performance.

Robert Wang　　James B. Francis, CFA
Julie Abbett
Portfolio Managers

The Russell 3000 Index is an unmanaged index that 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 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.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Growth & Income VIP

Asset Allocation (As a % of Investment Portfolio Excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	97%	97%
Cash Equivalents	2%	3%
Government & Agency Obligation	1%	—
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Health Care	16%	14%
Information Technology	16%	15%
Industrials	14%	13%
Consumer Staples	13%	9%
Energy	12%	14%
Financials	11%	15%
Consumer Discretionary	10%	11%
Telecommunication Services	4%	4%
Materials	2%	3%
Utilities	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 21. A complete list of portfolio holdings of the Portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 Growth & Income VIP

	Shares	Value ($)
Common Stocks 97.0%		
Consumer Discretionary 9.6%		
Auto Components 0.1%		
Autoliv, Inc.	2,700	57,942
Lear Corp.*	20,300	28,623
		86,565
Hotels Restaurants & Leisure 1.7%		
McDonald's Corp.	19,800	1,231,362
Yum! Brands, Inc.	13,500	425,250
		1,656,612
Household Durables 0.2%		
Leggett & Platt, Inc.	15,800	**240,002**
Internet & Catalog Retail 0.3%		
Amazon.com, Inc.*	5,800	**297,424**
Leisure Equipment & Products 0.2%		
Hasbro, Inc.	7,000	**204,190**
Media 3.6%		
Comcast Corp. "A"	91,900	1,551,272
Comcast Corp., Special "A"	24,500	395,675
DISH Network Corp. "A"*	17,700	196,293
Liberty Media Corp. Entertainment "A"*	7,100	124,108
The DIRECTV Group, Inc.*	51,100	1,170,701
		3,438,049
Specialty Retail 3.4%		
AutoZone, Inc.*	6,100	850,767
Best Buy Co., Inc. (a)	27,500	773,025
Children's Place Retail Stores, Inc.*	2,800	60,704
RadioShack Corp.	27,000	322,380
Rent-A-Center, Inc.*	6,000	105,900
The Gap, Inc.	30,000	401,700
TJX Companies, Inc.	35,200	724,064
		3,238,540
Textiles, Apparel & Luxury Goods 0.1%		
Quiksilver, Inc.*	16,100	29,624
Wolverine World Wide, Inc.	2,900	61,016
		90,640
Consumer Staples 12.7%		
Beverages 1.5%		
Pepsi Bottling Group, Inc.	9,100	204,841
PepsiCo, Inc.	21,900	1,199,463
		1,404,304
Food & Staples Retailing 3.9%		
Kroger Co.	49,300	1,302,013
Pantry, Inc.*	1,400	30,030
Sysco Corp.	12,500	286,750
Wal-Mart Stores, Inc.	39,000	2,186,340
		3,805,133
Food Products 1.6%		
Archer-Daniels-Midland Co.	6,800	196,044
Bunge Ltd.	4,900	253,673
Chiquita Brands International, Inc.*	13,300	196,574
Darling International, Inc.*	9,200	50,508
Fresh Del Monte Produce, Inc.*	9,900	221,958
General Mills, Inc.	10,700	650,025
		1,568,782
Household Products 3.6%		
Church & Dwight Co., Inc.	1,700	95,404
Colgate-Palmolive Co.	27,400	1,877,996
Procter & Gamble Co.	23,500	1,452,770
		3,426,170
Personal Products 0.2%		
Herbalife Ltd. (a)	7,800	**169,104**
Tobacco 1.9%		
Altria Group, Inc.	50,520	760,831
Philip Morris International, Inc.	24,700	1,074,697
		1,835,528
Energy 11.1%		
Oil, Gas & Consumable Fuels		
Alpha Natural Resources, Inc.*	10,700	173,233
Apache Corp.	23,400	1,744,002
Arch Coal, Inc.	18,200	296,478
Chevron Corp.	9,700	717,509
Cimarex Energy Co.	16,600	444,548
ConocoPhillips	4,700	243,460
Encore Acquisition Co.*	21,200	541,024
ExxonMobil Corp.	7,739	617,804
Frontline Ltd. (a)	27,300	808,353
Hess Corp.	27,600	1,480,464
Mariner Energy, Inc.*	22,400	228,480
Massey Energy Co.	24,400	336,476
McMoRan Exploration Co.* (a)	27,500	269,500
Occidental Petroleum Corp.	31,400	1,883,686
W&T Offshore, Inc.	17,800	254,896
Walter Industries, Inc.	39,800	696,898
		10,736,811
Financials 11.1%		
Capital Markets 2.3%		
Bank of New York Mellon Corp.	56,000	1,586,480
State Street Corp.	16,100	633,213
		2,219,693
Commercial Banks 2.1%		
Banco Itau Holding Financeira SA (ADR) (Preferred)	24,100	279,560
Unibanco — Uniao de Bancos Brasileiros SA (ADR)	6,100	394,182
Wells Fargo & Co.	44,800	1,320,704
		1,994,446
Consumer Finance 0.1%		
Cash America International, Inc.	2,300	**62,905**
Diversified Financial Services 2.2%		
JPMorgan Chase & Co.	68,800	**2,169,264**
Insurance 4.0%		
ACE Ltd.	32,100	1,698,732
Aflac, Inc.	5,600	256,704
Allied World Assurance Co. Holdings Ltd.	2,200	89,320
Aon Corp.	7,200	328,896
Arch Capital Group Ltd.*	1,100	77,110
Arthur J. Gallagher & Co.	2,600	67,366

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

	Shares	Value ($)
Assurant, Inc.	3,700	111,000
Berkshire Hathaway, Inc. "B"*	200	642,800
The Travelers Companies, Inc.	6,700	302,840
Unum Group	4,500	83,700
XL Capital Ltd. "A" (a)	51,100	189,070
		3,847,538
Real Estate Investment Trusts 0.4%		
Boston Properties, Inc. (REIT)	1,600	88,000
Essex Property Trust, Inc. (REIT)	1,800	138,150
Rayonier, Inc. (REIT) (a)	3,700	115,995
Simon Property Group, Inc. (REIT)	1,600	85,008
		427,153
Health Care 16.1%		
Biotechnology 2.7%		
Amgen, Inc.*	2,200	127,050
Gilead Sciences, Inc.*	35,700	1,825,698
OSI Pharmaceuticals, Inc.*	15,700	613,085
		2,565,833
Health Care Equipment & Supplies 2.8%		
Baxter International, Inc.	26,200	1,404,058
Becton, Dickinson & Co.	14,200	971,138
Covidien Ltd.	6,000	217,440
Kinetic Concepts, Inc.*	2,600	49,868
Varian Medical Systems, Inc.*	1,300	45,552
		2,688,056
Health Care Providers & Services 4.5%		
Aetna, Inc.	53,400	1,521,900
Express Scripts, Inc.*	24,500	1,347,010
Humana, Inc.*	13,400	499,552
Kindred Healthcare, Inc.*	5,400	70,308
Magellan Health Services, Inc.*	700	27,412
Medco Health Solutions, Inc.*	20,500	859,155
Universal Health Services, Inc. "B"	1,600	60,112
		4,385,449
Pharmaceuticals 6.1%		
Abbott Laboratories	13,200	704,484
Eli Lilly & Co.	43,000	1,731,610
Johnson & Johnson	11,700	700,011
Merck & Co., Inc.	25,000	760,000
Perrigo Co.	1,100	35,541
Pfizer, Inc.	28,700	508,277
Schering-Plough Corp.	72,500	1,234,675
Sepracor, Inc.*	6,900	75,762
Teva Pharmaceutical Industries Ltd. (ADR)	3,500	148,995
		5,899,355
Industrials 13.3%		
Aerospace & Defense 3.4%		
General Dynamics Corp.	9,900	570,141
Goodrich Corp.	9,900	366,498
Honeywell International, Inc.	41,520	1,363,102
L-3 Communications Holdings, Inc.	6,500	479,570
Lockheed Martin Corp.	2,600	218,608
Northrop Grumman Corp.	5,200	234,208
Spirit AeroSystems Holdings, Inc. "A"*	3,700	37,629
		3,269,756
Commercial Services & Supplies 0.3%		
The Brink's Co.	10,400	**279,552**
Construction & Engineering 1.5%		
Chicago Bridge & Iron Co. NV (NY Registered Shares)	3,000	30,150
EMCOR Group, Inc.*	16,400	367,852
Fluor Corp.	11,400	511,518
Foster Wheeler Ltd.*	15,300	357,714
Perini Corp.*	9,500	222,110
		1,489,344
Electrical Equipment 1.1%		
Acuity Brands, Inc.	1,400	48,874
Energy Conversion Devices, Inc.*	11,800	297,478
GrafTech International Ltd.*	77,100	641,472
Woodward Governor Co.	2,100	48,342
		1,036,166
Industrial Conglomerates 0.1%		
General Electric Co.	5,450	**88,290**
Machinery 4.2%		
AGCO Corp.* (a)	23,400	552,006
Caterpillar, Inc.	24,600	1,098,882
CNH Global NV	3,600	56,160
Cummins, Inc.	21,200	566,676
Dover Corp.	2,200	72,424
Flowserve Corp.	6,500	334,750
Gardner Denver, Inc.*	1,500	35,010
Joy Global, Inc.	9,700	222,033
Parker Hannifin Corp.	24,400	1,037,976
Trinity Industries, Inc.	5,500	86,680
		4,062,597
Road & Rail 2.7%		
Burlington Northern Santa Fe Corp.	12,900	976,659
Norfolk Southern Corp.	15,000	705,750
Ryder System, Inc.	22,600	876,428
		2,558,837
Information Technology 15.1%		
Communications Equipment 0.3%		
Cisco Systems, Inc.*	18,500	**301,550**
Computers & Peripherals 6.5%		
Hewlett-Packard Co.	54,900	1,992,321
International Business Machines Corp.	24,500	2,061,920
Lexmark International, Inc. "A"*	29,000	780,100
QLogic Corp.*	38,200	513,408
Western Digital Corp.*	82,600	945,770
		6,293,519
Electronic Equipment, Instruments & Components 0.4%		
Dolby Laboratories, Inc. "A"* (a)	3,200	104,832
Jabil Circuit, Inc.	38,200	257,850
		362,682
Internet Software & Services 1.4%		
eBay, Inc.*	16,470	229,921
Google, Inc. "A"*	3,520	1,082,928
Yahoo!, Inc.*	4,200	51,240
		1,364,089
IT Services 3.5%		
Accenture Ltd. "A"	28,600	937,794
Automatic Data Processing, Inc.	23,800	936,292
Computer Sciences Corp.*	19,000	667,660
Visa, Inc. "A"	16,000	839,200
		3,380,946

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

	Shares	Value ($)
Software 3.0%		
Microsoft Corp.	139,375	2,709,450
Symantec Corp.*	12,230	165,350
		2,874,800
Materials 2.3%		
Chemicals		
CF Industries Holdings, Inc.	19,700	968,452
Terra Industries, Inc.	72,700	1,211,909
The Mosaic Co.	2,500	86,500
		2,266,861
Telecommunication Services 3.9%		
Diversified Telecommunication Services		
AT&T, Inc.	41,380	1,179,330
Embarq Corp.	21,300	765,948
Verizon Communications, Inc.	52,700	1,786,530
		3,731,808
Utilities 1.8%		
Electric Utilities 0.6%		
Duke Energy Corp.	2,700	40,527
Edison International	8,200	263,384
Hawaiian Electric Industries, Inc.	1,100	24,354
Pepco Holdings, Inc.	5,000	88,800
Portland General Electric Co.	1,500	29,205
Southern Co.	3,800	140,600
		586,870
Gas Utilities 0.3%		
Atmos Energy Corp.	1,600	37,920
ONEOK, Inc.	6,500	189,280
UGI Corp.	1,400	34,188
		261,388
Independent Power Producers & Energy Traders 0.4%		
AES Corp.*	45,600	**375,744**
Multi-Utilities 0.5%		
Dominion Resources, Inc.	7,500	268,800
Integrys Energy Group, Inc.	1,300	55,874
Sempra Energy	2,700	115,101
TECO Energy, Inc.	2,100	25,935
		465,710
Total Common Stocks (Cost $123,483,787)		**93,508,055**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.7%		
US Treasury Obligation		
US Treasury Bill, 0.17%**, 1/15/2009 (b) (Cost $685,955)	686,000	**685,997**

	Shares	Value ($)
Securities Lending Collateral 1.9%		
Daily Assets Fund Institutional, 1.69% (c) (d) (Cost $1,836,942)	1,836,942	**1,836,942**
Cash Equivalents 2.1%		
Cash Management QP Trust, 1.42% (c) (Cost $1,992,006)	1,992,006	**1,992,006**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $127,998,690) †	101.7	**98,023,000**
Other Assets and Liabilities, Net	(1.7)	**(1,667,905)**
Net Assets	100.0	**96,355,095**

* *Non-income producing security.*

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

† *The cost for federal income tax purposes was $130,913,694. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $32,890,694. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,992,031 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $35,882,725.*

(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, 2008 amounted to $1,842,633, which is 1.9% of net assets.*

(b) *At December 31, 2008, 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, 2008, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Appreciation ($)
S&P 500 Index	3/20/2009	57	2,523,416	2,565,285	**41,869**

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities	Other Financial Instruments††
Level 1	$ 95,344,997	$ 41,869
Level 2	2,678,003	—
Level 3	—	—
Total	**$ 98,023,000**	**$ 41,869**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as futures contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $124,169,742), including $1,842,633 of securities loaned	$	94,194,052
Investment in Daily Assets Fund Institutional (cost $1,836,942)*		1,836,942
Investment in Cash Management QP Trust (cost $1,992,006)		1,992,006
Total investments, at value (cost $127,998,690)		98,023,000
Foreign currency, at value (cost $1,794)		1,487
Dividends receivable		146,070
Interest receivable		7,510
Receivable for Portfolio shares sold		98,945
Receivable for daily variation margin on open futures contracts		34,653
Other assets		3,793
Total assets		98,315,458

Liabilities		
Cash overdraft		2,349
Payable for Portfolio shares redeemed		20,565
Payable upon return of securities loaned		1,836,942
Accrued management fee		36,895
Accrued distribution service fee (Class B)		380
Other accrued expenses and payables		63,232
Total liabilities		1,960,363
Net assets, at value	**$**	**96,355,095**

Net Assets Consist of		
Undistributed net investment income		1,938,429
Net unrealized appreciation (depreciation) on:		
Investments		(29,975,690)
Futures		41,869
Foreign currency		(307)
Accumulated net realized gain (loss)		(41,101,142)
Paid-in capital		165,451,936
Net assets, at value	**$**	**96,355,095**
Class A		
Net Asset Value, offering and redemption price per share ($94,487,711 ÷ 18,437,278 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**5.12**
Class B		
Net Asset Value, offering and redemption price per share ($1,867,384 ÷ 364,787 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**5.12**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $6,028)	$	2,702,211
Interest		11,151
Interest — Cash Management QP Trust		109,069
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		39,191
Total Income		2,861,622
Expenses:		
Management fee		592,051
Administration fee		151,808
Custodian fee		25,213
Distribution service fee (Class B)		15,010
Services to shareholders		969
Professional fees		73,438
Trustees' fees and expenses		7,575
Reports to shareholders		41,438
Other		11,113
Total expenses before expense reductions		918,615
Expense reductions		(84,926)
Total expenses after expense reductions		833,689
Net investment income (loss)		**2,027,933**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(27,301,950)
Futures		(1,897,725)
Foreign currency		(89)
		(29,199,764)
Change in net unrealized appreciation (depreciation) on:		
Investments		(40,861,638)
Futures		61,425
Foreign currency		(319)
		(40,800,532)
Net gain (loss)		**(70,000,296)**
Net increase (decrease) in net assets resulting from operations	**$**	**(67,972,363)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 2,027,933	$ 3,281,163
Net realized gain (loss)	(29,199,764)	38,689,859
Change in net unrealized appreciation (depreciation)	(40,800,532)	(35,739,490)
Net increase (decrease) in net assets resulting from operations	(67,972,363)	6,231,532
Distributions to shareholders from:		
Net investment income:		
Class A	(3,050,163)	(3,254,218)
Class B	(190,157)	(431,057)
Net realized gains:		
Class A	(35,948,939)	(3,589,531)
Class B	(2,803,004)	(675,883)
Total distributions	(41,992,263)	(7,950,689)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	5,212,323	7,943,494
Reinvestment of distributions	38,999,102	6,843,749
Cost of shares redeemed	(40,183,360)	(96,721,167)
Net increase (decrease) in net assets from Class A share transactions	4,028,065	(81,933,924)
Class B		
Proceeds from shares sold	295,876	1,756,094
Reinvestment of distributions	2,993,161	1,106,940
Cost of shares redeemed	(11,145,692)	(40,893,714)
Net increase (decrease) in net assets from Class B share transactions	(7,856,655)	(38,030,680)
Increase (decrease) in net assets	(113,793,216)	(121,683,761)
Net assets at beginning of period	210,148,311	331,832,072
Net assets at end of period (including undistributed net investment income of $1,938,429 and $3,269,183, respectively)	**$ 96,355,095**	**$ 210,148,311**

Other Information		
Class A		
Shares outstanding at beginning of period	18,082,818	25,561,711
Shares sold	749,218	724,126
Shares issued to shareholders in reinvestment of distributions	5,038,643	621,594
Shares redeemed	(5,433,401)	(8,824,613)
Net increase (decrease) in Class A shares	354,460	(7,478,893)
Shares outstanding at end of period	**18,437,278**	**18,082,818**
Class B		
Shares outstanding at beginning of period	1,355,326	4,788,468
Shares sold	42,150	161,143
Shares issued to shareholders in reinvestment of distributions	387,214	100,722
Shares redeemed	(1,419,903)	(3,695,007)
Net increase (decrease) in Class B shares	(990,539)	(3,433,142)
Shares outstanding at end of period	**364,787**	**1,355,326**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$10.81**	**$10.94**	**$ 9.72**	**$ 9.29**	**$ 8.50**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.10	.13	.13[c]	.10	.12
Net realized and unrealized gain (loss)	(3.45)	.02	1.19	.45	.74
Total from investment operations	(3.35)	.15	1.32	.55	.86
Less distributions from:					
Net investment income	(.18)	(.13)	(.10)	(.12)	(.07)
Net realized gains	(2.16)	(.15)	—	—	—
Total distributions	(2.34)	(.28)	(.10)	(.12)	(.07)
Net asset value, end of period	**$ 5.12**	**$10.81**	**$10.94**	**$ 9.72**	**$ 9.29**
Total Return (%)	(38.31)[b]	1.36[b]	13.63[b,c]	6.07[b]	10.16
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	94	196	280	294	172
Ratio of expenses before expense reductions (%)	.60	.57	.56	.57	.56
Ratio of expenses after expense reductions (%)	.54	.56	.54	.54	.56
Ratio of net investment income (loss) (%)	1.34	1.18	1.24[c]	1.10	1.37
Portfolio turnover rate (%)	130	310	105	115	33

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 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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$10.77**	**$10.90**	**$ 9.68**	**$ 9.25**	**$ 8.47**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.08	.09	.09[c]	.07	.09
Net realized and unrealized gain (loss)	(3.42)	.02	1.19	.45	.73
Total from investment operations	(3.34)	.11	1.28	.52	.82
Less distributions from:					
Net investment income	(.15)	(.09)	(.06)	(.09)	(.04)
Net realized gains	(2.16)	(.15)	—	—	—
Total distributions	(2.31)	(.24)	(.06)	(.09)	(.04)
Net asset value, end of period	**5.12**	**$10.77**	**$10.90**	**$ 9.68**	**$ 9.25**
Total Return (%)	(38.29)[b]	1.00[b]	13.28[b,c]	5.73[b]	9.78
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	15	52	47	33
Ratio of expenses before expense reductions (%)	.82	.95	.94	.95	.89
Ratio of expenses after expense reductions (%)	.77	.92	.89	.89	.89
Ratio of net investment income (loss) (%)	1.12	.82	.89[c]	.75	1.04
Portfolio turnover rate (%)	130	310	105	115	33

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 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.

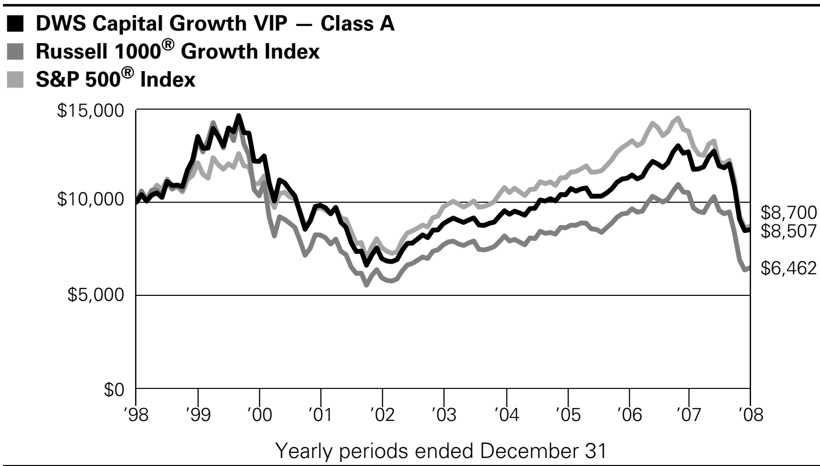
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.50% and 0.88% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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	$6,702	$8,189	$9,635	$8,507
	Average annual total return	–32.98%	–6.44%	–.74%	–1.60%
Russell 1000 Growth Index	Growth of $10,000	$6,156	$7,508	$8,401	$6,462
	Average annual total return	–38.44%	–9.11%	–3.42%	–4.27%
S&P 500 Index	Growth of $10,000	$6,300	$7,696	$8,953	$8,700
	Average annual total return	–37.00%	–8.36%	–2.19%	–1.38%

DWS Capital Growth VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$6,680	$8,105	$9,460	$8,234
	Average annual total return	–33.20%	–6.76%	–1.11%	–1.92%
Russell 1000 Growth Index	Growth of $10,000	$6,156	$7,508	$8,401	$6,462
	Average annual total return	–38.44%	–9.11%	–3.42%	–4.27%
S&P 500 Index	Growth of $10,000	$6,300	$7,696	$8,953	$8,700
	Average annual total return	–37.00%	–8.36%	–2.19%	–1.38%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 712.40	$ 711.10
Expenses Paid per $1,000*	$ 2.11	$ 3.53
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,022.67	$1,021.01
Expenses Paid per $1,000*	$ 2.49	$ 4.17

* *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 366.*

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.

DWS Capital Growth VIP

The year just ended was the worst in many decades for the US equity markets. Essentially all equity indices posted negative returns for this period, as markets reflected economic problems including a housing slump, rising unemployment, a crisis of confidence and an extreme credit crunch. The Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, had a negative return of –37.31% for the 12 months ended December 31, 2008. Value stocks, as measured by the Russell 1000® Value Index, performed somewhat better than growth stocks, as measured by the Russell 1000® Growth Index over the same period. With a return of –32.98% during the 12-month period ended December 31, 2008 (Class A shares, unadjusted for contract charges), the Portfolio performed better than its benchmark, the Russell 1000 Growth Index, which had a negative return of –38.44%.

The greatest contributor to performance was an overweight and stock selection in the health care sector.[1] Holdings that performed especially well were biopharmaceutical companies Gilead Sciences, Inc. and Genentech, Inc., which soared on news that Roche Holding Ltd. had offered to acquire the 44% of Genentech it does not already own. Also, Johnson & Johnson performed much better than the market, although the stock was down modestly.

The major detractor from performance was stock selection in the consumer discretionary sector. Positions in this sector that hurt performance were GameStop Corp., Harley-Davidson, Inc.* and Dick's Sporting Goods.* However, an overweight position in McDonald's Corp., also in the consumer discretionary sector, was one of the top contributors to performance.

Owen Fitzpatrick, CFA (as of February 15, 2009) and Richard Shepley
Co-Lead Portfolio Managers

Brendan O'Neill, CFA
Portfolio Manager

The Russell 3000 Index is an unmanaged index that 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 is an unmanaged, capitalization-weighted index containing those securities in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.

Index returns assume the reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly in 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.*

* *Not held in the Portfolio as of December 31, 2008.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Capital Growth VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	97%	98%
Cash Equivalents	3%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Health Care	22%	18%
Information Technology	22%	24%
Consumer Staples	15%	11%
Energy	10%	14%
Industrials	10%	11%
Consumer Discretionary	8%	10%
Materials	8%	4%
Financials	3%	5%
Telecommunication Services	1%	2%
Utilities	1%	1%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 31. A complete list of portfolio holdings of the Portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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

DWS Capital Growth VIP

	Shares	Value ($)
Common Stocks 97.3%		
Consumer Discretionary 7.9%		
Hotels Restaurants & Leisure 2.7%		
McDonald's Corp. (a)	265,700	**16,523,883**
Media 0.5%		
Walt Disney Co. (a)	133,200	**3,022,308**
Multiline Retail 1.4%		
Kohl's Corp.* (a)	238,200	**8,622,840**
Specialty Retail 2.5%		
GameStop Corp. "A"*	210,100	4,550,766
Staples, Inc.	413,565	7,411,085
Tiffany & Co.	136,700	3,230,221
		15,192,072
Textiles, Apparel & Luxury Goods 0.8%		
NIKE, Inc. "B"	88,400	**4,508,400**
Consumer Staples 14.2%		
Beverages 4.3%		
Diageo PLC	506,526	6,998,559
PepsiCo, Inc.	349,325	19,132,530
		26,131,089
Food & Staples Retailing 4.3%		
Shoppers Drug Mart Corp.	105,100	4,090,770
Wal-Mart Stores, Inc. (a)	294,400	16,504,064
Walgreen Co.	216,800	5,348,456
		25,943,290
Food Products 3.3%		
Dean Foods Co.*	181,618	3,263,676
General Mills, Inc.	49,400	3,001,050
Groupe DANONE	110,035	6,604,556
Kellogg Co.	162,200	7,112,470
		19,981,752
Household Products 2.3%		
Colgate-Palmolive Co.	139,240	9,543,510
Procter & Gamble Co.	72,770	4,498,641
		14,042,151
Energy 10.2%		
Energy Equipment & Services 2.6%		
Halliburton Co.	242,200	4,403,196
Noble Corp.	152,700	3,373,143
Schlumberger Ltd.	126,400	5,350,512
Transocean Ltd.* (a)	56,927	2,689,801
		15,816,652
Oil, Gas & Consumable Fuels 7.6%		
ConocoPhillips	104,660	5,421,388
Devon Energy Corp.	165,700	10,888,147
EOG Resources, Inc. (a)	119,725	7,971,290
ExxonMobil Corp.	143,000	11,415,690
XTO Energy, Inc. (a)	281,982	9,945,505
		45,642,020

	Shares	Value ($)
Financials 3.3%		
Capital Markets 1.2%		
Charles Schwab Corp.	239,000	3,864,630
State Street Corp. (a)	84,470	3,322,205
		7,186,835
Diversified Financial Services 0.7%		
CME Group, Inc. (a)	19,937	**4,149,089**
Insurance 1.4%		
Aflac, Inc.	187,724	**8,605,268**
Health Care 21.9%		
Biotechnology 6.5%		
Celgene Corp.*	146,900	8,120,632
Genentech, Inc.* (a)	110,350	9,149,118
Gilead Sciences, Inc.* (a)	429,620	21,970,767
		39,240,517
Health Care Equipment & Supplies 6.2%		
Baxter International, Inc.	287,800	15,423,202
C.R. Bard, Inc.	96,500	8,131,090
Hologic, Inc.* (a)	181,500	2,372,205
Medtronic, Inc.	194,300	6,104,906
Zimmer Holdings, Inc.*	135,840	5,490,653
		37,522,056
Health Care Providers & Services 1.3%		
Laboratory Corp. of America Holdings* (a)	105,300	6,782,373
UnitedHealth Group, Inc.	34,685	922,621
		7,704,994
Life Sciences Tools & Services 1.1%		
Thermo Fisher Scientific, Inc.* (a)	193,400	**6,589,138**
Pharmaceuticals 6.8%		
Abbott Laboratories	292,200	15,594,714
Eli Lilly & Co.	92,400	3,720,948
Johnson & Johnson (a)	365,466	21,865,831
		41,181,493
Industrials 9.8%		
Aerospace & Defense 4.4%		
Goodrich Corp. (a)	208,300	7,711,266
Honeywell International, Inc. (a)	244,700	8,033,501
United Technologies Corp.	200,200	10,730,720
		26,475,487
Electrical Equipment 1.8%		
Emerson Electric Co. (a)	301,900	**11,052,559**
Machinery 1.3%		
Caterpillar, Inc.	32,200	1,438,374
Parker Hannifin Corp. (a)	149,200	6,346,968
		7,785,342
Road & Rail 2.3%		
Canadian National Railway Co. (a)	254,900	9,370,124
Norfolk Southern Corp.	102,800	4,836,740
		14,206,864

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

	Shares	Value ($)
Information Technology 21.1%		
Communications Equipment 3.2%		
Cisco Systems, Inc.*	558,720	9,107,136
QUALCOMM, Inc.	275,700	9,878,331
		18,985,467
Computers & Peripherals 6.7%		
Apple, Inc.*	142,835	12,190,967
EMC Corp.*	378,615	3,964,099
Hewlett-Packard Co. (a)	365,000	13,245,850
International Business Machines Corp. (a)	134,700	11,336,352
		40,737,268
Electronic Equipment, Instruments & Components 1.1%		
Mettler-Toledo International, Inc.* (a)	97,300	**6,558,020**
Internet Software & Services 0.9%		
Google, Inc. "A"*	17,825	**5,483,861**
IT Services 3.7%		
Accenture Ltd. "A"	324,300	10,633,797
Fiserv, Inc.* (a)	137,400	4,997,238
Visa, Inc. "A"	129,000	6,766,050
		22,397,085
Semiconductors & Semiconductor Equipment 2.3%		
Broadcom Corp. "A"* (a)	156,200	2,650,714
Intel Corp. (a)	763,090	11,186,900
		13,837,614
Software 3.2%		
Adobe Systems, Inc.* (a)	268,475	5,715,833
Electronic Arts, Inc.*	147,700	2,369,108
Microsoft Corp. (a)	585,380	11,379,787
		19,464,728
Materials 7.4%		
Chemicals 5.1%		
Ecolab, Inc.	294,100	10,337,615
Monsanto Co.	154,700	10,883,145
Praxair, Inc. (a)	161,300	9,574,768
		30,795,528
Metals & Mining 2.3%		
Barrick Gold Corp. (a)	316,500	11,637,705
Freeport-McMoRan Copper & Gold, Inc.	85,800	2,096,952
		13,734,657
Telecommunication Services 1.0%		
Diversified Telecommunication Services		
AT&T, Inc.	219,000	**6,241,500**
Utilities 0.5%		
Electric Utilities		
Allegheny Energy, Inc.	80,100	**2,712,186**
Total Common Stocks (Cost $574,082,567)		**588,074,013**

Securities Lending Collateral 22.8%

Daiy Assets Fund Institutional, 1.69% (b) (c) (Cost $137,751,495)	137,751,495	**137,751,495**

Cash Equivalents 2.7%

Cash Management QP Trust, 1.42% (b) (Cost $16,636,327)	16,636,327	**16,636,327**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $728,470,389)†	122.8	**742,461,835**
Other Assets and Liabilities, Net	(22.8)	**(138,040,166)**
Net Assets	100.0	**604,421,669**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $731,887,395. At December 31, 2008, net unrealized appreciation for all securities based on tax cost was $10,574,440. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $110,906,577 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $100,332,137.*

(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, 2008 amounted to $135,983,737, which is 22.5% 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.*

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities
Level 1	$ 712,222,393
Level 2	30,239,442
Level 3	—
Total	**$ 742,461,835**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investments in securities, at value (cost $574,082,567), including $135,983,737 of securities loaned	$ 588,074,013
Investment in Daily Assets Fund Institutional (cost $137,751,495)*	137,751,495
Investment in Cash Management QP Trust (cost $16,636,327)	16,636,327
Total investments, at value (cost $728,470,389)	742,461,835
Receivable for investments sold	82,215
Dividends receivable	714,396
Interest receivable	104,795
Receivable for Portfolio shares sold	16,799
Foreign taxes recoverable	64,757
Other assets	28,207
Total assets	743,473,004

Liabilities	
Cash overdraft	78,290
Payable for Portfolio shares redeemed	909,371
Payable upon return of securities loaned	137,751,495
Accrued management fee	142,926
Accrued distribution service fee (Class B)	1,481
Other accrued expenses and payables	167,772
Total liabilities	139,051,335
Net assets, at value	**$ 604,421,669**

Net Assets Consist of	
Undistributed net investment income	7,945,917
Net unrealized appreciation (depreciation) on:	
Investments	13,991,446
Foreign currency	5,875
Accumulated net realized gain (loss)	(239,522,654)
Paid-in capital	822,001,085
Net assets, at value	**$ 604,421,669**
Class A	
Net Asset Value, offering and redemption price per share ($593,927,716 ÷ 43,844,542 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 13.55**
Class B	
Net Asset Value, offering and redemption price per share ($10,493,953 ÷ 777,803 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 13.49**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $92,798)	$ 11,275,199
Interest	626
Interest — Cash Management QP Trust	424,008
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	486,686
Total Income	12,186,519
Expenses:	
Management fee	3,273,016
Administration fee	879,862
Custodian fee	66,128
Distribution service fee (Class B)	37,000
Services to shareholders	874
Record keeping fee (Class B)	14,172
Professional fees	95,226
Trustees' fees and expenses	45,567
Reports to shareholders	49,388
Other	30,997
Total expenses before expense reductions	4,492,230
Expense reductions	(119,918)
Total expenses after expense reductions	4,372,312
Net investment income (loss)	**7,814,207**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	23,279,165
Foreign currency	(106,168)
	23,172,997
Change in net unrealized appreciation (depreciation) on:	
Investments	(355,391,930)
Foreign currency	2,427
	(355,389,503)
Net gain (loss)	**(332,216,506)**
Net increase (decrease) in net assets resulting from operations	**$ (324,402,299)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 7,814,207	$ 9,712,813
Net realized gain (loss)	23,172,997	108,270,953
Change in net unrealized appreciation (depreciation)	(355,389,503)	19,841,624
Net increase (decrease) in net assets resulting from operations	(324,402,299)	137,825,390
Distributions to shareholders from:		
Net investment income:		
Class A	(9,355,147)	(6,887,657)
Class B	(96,190)	(258,683)
Total distributions	(9,451,337)	(7,146,340)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	23,952,264	22,292,590
Reinvestment of distributions	9,355,147	6,887,657
Cost of shares redeemed	(169,314,485)	(225,450,131)
Net increase (decrease) in net assets from Class A share transactions	(136,007,074)	(196,269,884)
Class B		
Proceeds from shares sold	1,473,846	1,548,433
Reinvestment of distributions	96,190	258,683
Cost of shares redeemed	(4,263,172)	(97,598,529)
Net increase (decrease) in net assets from Class B share transactions	(2,693,136)	(95,791,413)
Increase (decrease) in net assets	(472,553,846)	(161,382,247)
Net assets at beginning of period	1,076,975,515	1,238,357,762
Net assets at end of period (including undistributed net investment income of $7,945,917 and $9,689,216, respectively)	**$ 604,421,669**	**$ 1,076,975,515**

Other Information		
Class A		
Shares outstanding at beginning of period	51,857,448	62,005,444
Shares sold	1,366,508	1,165,102
Shares issued to shareholders in reinvestment of distributions	468,930	362,508
Shares redeemed	(9,848,344)	(11,675,606)
Net increase (decrease) in Class A shares	(8,012,906)	(10,147,996)
Shares outstanding at end of period	**43,844,542**	**51,857,448**
Class B		
Shares outstanding at beginning of period	920,834	5,921,673
Shares sold	89,671	80,681
Shares issued to shareholders in reinvestment of distributions	4,831	13,644
Shares redeemed	(237,533)	(5,095,164)
Net increase (decrease) in Class B shares	(143,031)	(5,000,839)
Shares outstanding at end of period	**777,803**	**920,834**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$20.41**	**$18.24**	**$16.90**	**$15.67**	**$14.59**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.16	.17[d]	.13[c]	.10	.14
Net realized and unrealized gain (loss)	(6.83)	2.12	1.31	1.29	1.02
Total from investment operations	(6.67)	2.29	1.44	1.39	1.16
Less distributions from:					
Net investment income	(.19)	(.12)	(.10)	(.16)	(.08)
Net asset value, end of period	**$13.55**	**$20.41**	**$18.24**	**$16.90**	**$15.67**
Total Return (%)	(32.98)[b]	12.59[b]	8.53[b,c]	8.96[b]	7.99
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	594	1,058	1,131	1,031	698
Ratio of expenses before expense reductions (%)	.50	.53	.52	.50	.50
Ratio of expenses after expense reductions (%)	.49	.52	.49	.49	.50
Ratio of net investment income (loss) (%)	.89	.86[d]	.73[c]	.61	.98
Portfolio turnover rate (%)	21	30	16	17	15

[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 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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$20.31**	**$18.15**	**$16.81**	**$15.59**	**$14.52**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.10	.09[d]	.06[c]	.04	.09
Net realized and unrealized gain (loss)	(6.81)	2.12	1.31	1.28	1.01
Total from investment operations	(6.71)	2.21	1.37	1.32	1.10
Less distributions from:					
Net investment income	(.11)	(.05)	(.03)	(.10)	(.03)
Net asset value, end of period	**$13.49**	**$20.31**	**$18.15**	**$16.81**	**$15.59**
Total Return (%)	(33.20)[b]	12.18[b]	8.17[b,c]	8.51[b]	7.56
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	10	19	107	73	23
Ratio of expenses before expense reductions (%)	.85	.94	.91	.89	.88
Ratio of expenses after expense reductions (%)	.82	.90	.86	.86	.88
Ratio of net investment income (loss) (%)	.56	.48[d]	.36[c]	.24	.60
Portfolio turnover rate (%)	21	30	16	17	15

[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 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.

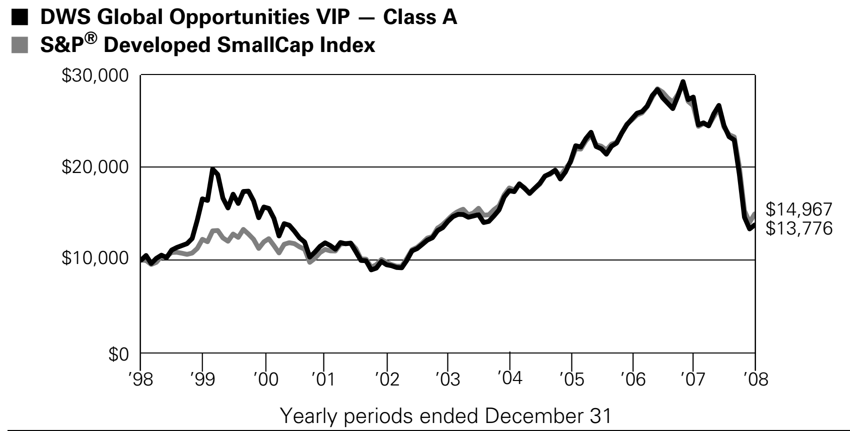
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 1.10% and 1.46% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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 risks, 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® Developed SmallCap Index (formerly 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	$5,004	$6,678	$9,735	$13,776
	Average annual total return	–49.96%	–12.59%	–.54%	3.26%
S&P Developed SmallCap Index	Growth of $10,000	$5,625	$7,301	$10,410	$14,967
	Average annual total return	–43.75%	–9.96%	.81%	4.12%

DWS Global Opportunities VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$4,984	$6,616	$9,617	$13,444
	Average annual total return	–50.16%	–12.86%	–.78%	3.00%
S&P Developed SmallCap Index	Growth of $10,000	$5,625	$7,301	$10,410	$14,967
	Average annual total return	–43.75%	–9.96%	.81%	4.12%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 563.30	$ 561.70
Expenses Paid per $1,000*	$ 3.85	$ 5.10

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,020.21	$1,018.60
Expenses Paid per $1,000*	$ 4.98	$ 6.60

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Global Opportunities VIP	.98%	1.30%

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

Amid the extremely negative investment environment of the 12-month period ended December 31, 2008, DWS Global Opportunities VIP Class A shares (unadjusted for contract charges) declined –49.96% and lagged the –43.75% return of the S&P® Developed SmallCap Index (formerly the S&P/Citigroup Extended Market Index-World).

We are disappointed to report that stock selection was the primary cause of the Portfolio's underperformance. Our emphasis on using fundamental research to find high-quality growth companies was not rewarded during the past year, reflecting the fact that investor fear caused higher-quality companies to decline in tandem with other, less attractive companies. In these unusual market conditions, our focus on fundamentals did not translate into outperformance.

Stock selections in the financial, information technology and consumer staples sectors were notable sources of underperformance in 2008. On the plus side, we generated the best relative performance in the health care and consumer discretionary sectors. The top individual contributors were Thoratec Corp. and Fresenius Medical Care AG & Co., while the leading detractors were SunOpta, Inc., Piraeus Bank S.A.* and Anglo Irish Bank Corp. PLC.

While the past year has been a difficult time to be invested in small-cap stocks, the extreme market volatility has provided an opportunity to establish long-term positions in fast-growing companies at very attractive valuation levels. Overall, we believe the portfolio is defensively positioned due to our preference for the highest-quality fundamentally sound growth companies. We believe this is the most effective way to approach a market characterized by both high risks and increasingly compelling opportunities.

Joseph Axtell, CFA　　Jeffrey Saeger, CFA

Portfolio Managers

The S&P Developed SmallCap Index (formerly 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.

* *Not held in the Portfolio as of December 31, 2008.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Global Opportunities VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	99%	98%
Cash Equivalents	1%	2%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/08**	**12/31/07**
United States	41%	31%
Continental Europe	35%	38%
United Kingdom	8%	9%
Japan	7%	6%
Pacific Basin	5%	10%
Canada	1%	2%
Australia	1%	2%
Latin America	1%	1%
Other	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Health Care	21%	16%
Industrials	20%	16%
Information Technology	18%	18%
Financials	12%	21%
Consumer Discretionary	10%	10%
Energy	9%	10%
Consumer Staples	5%	3%
Utilities	4%	4%
Materials	1%	1%
Telecommunication Services	—	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 40. A complete list of portfolio holdings of the Portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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

DWS Global Opportunities VIP

	Shares	Value ($)
Common Stocks 98.0%		
Australia 0.6%		
Austal Ltd. (Cost $1,028,811)	538,533	**735,763**
Bahrain 0.4%		
Gulf Finance House EC (GDR) 144A (Cost $1,138,485)	50,082	**425,697**
Belgium 0.4%		
Hansen Transmissions International NV* (Cost $1,014,963)	286,190	**482,621**
Brazil 0.5%		
Diagnosticos da America SA (Cost $1,502,673)	66,100	**643,535**
Canada 1.4%		
CAE, Inc.	153,300	1,005,857
OPTI Canada, Inc.*	155,100	226,295
SunOpta, Inc.*	336,500	528,305
(Cost $5,479,171)		**1,760,457**
China 1.2%		
Minth Group Ltd.	1,782,200	718,935
Soho China Ltd.	732,500	317,160
VanceInfo Technologies, Inc. (ADR)*	97,800	464,550
(Cost $1,838,606)		**1,500,645**
Cyprus 0.8%		
Prosafe Production Public Ltd.*(a)	247,423	396,307
ProSafe SE (b)	152,963	583,175
(Cost $2,275,949)		**979,482**
France 2.4%		
Financiere Marc de Lacharriere SA (a)	21,810	680,290
Flamel Technologies SA (ADR)* (a)	200,700	786,744
JC Decaux SA	82,396	1,418,659
(Cost $6,219,557)		**2,885,693**
Germany 15.4%		
Fresenius Medical Care AG & Co. KGaA	129,507	6,072,988
Grenkeleasing AG	22,417	562,511
M.A.X. Automation AG	284,739	896,684
QSC AG*	219,612	388,028
Rational AG (a)	10,184	1,208,254
SGL Carbon AG* (a)	42,100	1,438,445
Software AG	29,904	1,688,234
Stada Arzneimittel AG	81,334	2,378,854
Tognum AG	45,157	576,811
United Internet AG (Registered) (a)	237,543	2,126,030
Wincor Nixdorf AG	31,634	1,508,246
(Cost $15,472,529)		**18,845,085**
Greece 1.7%		
Coca-Cola Hellenic Bottling Co. SA	101,300	1,477,724
Hellenic Exchanges SA	81,800	644,018
(Cost $2,173,850)		**2,121,742**
Hong Kong 3.4%		
K Wah International Holdings Ltd.	2,598,000	424,581
Kingboard Chemical Holdings Ltd.	799,640	1,446,996
Midland Holdings Ltd.	1,550,357	557,281
Wing Hang Bank Ltd.	196,700	1,139,534
Xinyi Glass Holdings Co., Ltd. (c)	2,160,000	584,028
(Cost $4,353,189)		**4,152,420**
Ireland 4.9%		
Anglo Irish Bank Corp. PLC	236,421	56,779
C&C Group PLC	465,849	943,174
FBD Holdings PLC	26,000	265,415
ICON PLC (ADR)*	76,400	1,504,316
Kingspan Group PLC	91,146	397,368
Norkom Group PLC*	297,432	206,723
Paddy Power PLC	67,729	1,267,822
Ryanair Holdings PLC*	319,528	1,326,859
(Cost $8,277,547)		**5,968,456**
Italy 1.3%		
Prysmian SpA (Cost $2,222,420)	100,453	**1,577,725**
Japan 7.0%		
AEON Credit Service Co., Ltd.	77,200	816,783
AEON Mall Co., Ltd.	121,000	2,336,004
JAFCO Co., Ltd.	19,100	488,272
Mitsubishi UFJ Lease & Finance Co., Ltd.	34,660	880,587
Nidec Corp.	19,000	738,866
Shinko Plantech Co., Ltd.	181,300	1,534,634
Sumitomo Realty & Development Co., Ltd.	86,000	1,281,320
Wacom Co., Ltd. (a)	541	478,598
(Cost $9,046,289)		**8,555,064**
Netherlands 5.7%		
Arcadis NV (a)	60,716	800,443
Chicago Bridge & Iron Co. NV (NY Registered Shares)	60,700	610,035
Koninklijke Vopak NV	27,573	1,046,212
QIAGEN NV* (a)	156,000	2,726,175
SBM Offshore NV	133,045	1,743,441
(Cost $7,507,816)		**6,926,306**
Spain 0.5%		
Tecnicas Reunidas SA (Cost $1,500,429)	24,688	**645,132**
Sweden 0.0%		
Micronic Laser Systems AB* (a) (Cost $607,066)	63,300	**48,029**
Switzerland 1.2%		
Advanced Digital Broadcast Holdings SA (ADB Group) (Registered)*	15,290	418,211
Partners Group Holding AG	15,400	1,094,891
(Cost $1,592,201)		**1,513,102**
Taiwan 0.7%		
Siliconware Precision Industries Co. (Cost $636,347)	1,010,743	**883,338**

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

	Shares	Value ($)
United Arab Emirates 0.5%		
Lamprell PLC (Cost $1,204,470)	368,174	**624,665**
United Kingdom 8.1%		
Aegis Group PLC	406,459	438,205
ARM Holdings PLC	805,246	1,007,643
Ashmore Group PLC	491,229	946,681
Babcock International Group PLC	166,156	1,142,990
Carphone Warehouse Group PLC	307,703	399,505
John Wood Group PLC	170,975	466,384
Kofax PLC	289,575	580,053
Michael Page International PLC	288,739	898,656
Serco Group PLC	410,345	2,670,727
Xchanging PLC (a)	405,910	1,379,823
(Cost $15,272,784)		**9,930,667**
United States 39.9%		
Advance Auto Parts, Inc.	38,850	1,307,302
Aecom Technology Corp.*	77,368	2,377,519
Aeropostale, Inc.*	36,900	594,090
Allegheny Energy, Inc.	149,500	5,062,070
American Eagle Outfitters, Inc.	74,200	694,512
AMERIGROUP Corp.*	69,100	2,039,832
ANSYS, Inc.*	11,700	326,313
BE Aerospace, Inc.*	64,100	492,929
Cameron International Corp.*	13,700	280,850
Carter's, Inc.*	65,200	1,255,752
Chattem, Inc.*	13,100	937,043
Cogent, Inc.*	89,400	1,213,158
Deckers Outdoor Corp.*	10,000	798,700
Diamond Foods, Inc.	58,300	1,174,745
Dresser-Rand Group, Inc.*	79,100	1,364,475
EMS Technologies, Inc.*	46,600	1,205,542
Foundation Coal Holdings, Inc.	44,100	618,282
FTI Consulting, Inc.* (a)	52,950	2,365,806
Green Mountain Coffee Roasters, Inc.* (a)	32,400	1,253,880
Itron, Inc.* (a)	52,100	3,320,854
Jefferies Group, Inc.	46,500	653,790
Joy Global, Inc.	66,475	1,521,613
Lam Research Corp.*	25,300	538,384
Life Technologies Corp.*	45,400	1,058,274
Martin Marietta Materials, Inc. (a)	6,800	660,144
Metabolix, Inc.* (a)	42,500	540,600
Mueller Water Products, Inc. "A"	62,100	521,640
Mylan, Inc.* (a)	134,900	1,334,161
NeuStar, Inc. "A"*	58,900	1,126,757
NxStage Medical, Inc.*	175,600	468,852
Owens & Minor, Inc.	48,300	1,818,495
Perficient, Inc.*	49,500	236,610
Phillips-Van Heusen Corp.	28,800	579,744
Schawk, Inc.	78,400	898,464
Somanetics Corp.*	75,900	1,253,109
Thoratec Corp.*	93,200	3,028,068
THQ, Inc.*	121,200	507,828
Ultra Petroleum Corp.*	77,800	2,684,878
Waddell & Reed Financial, Inc. "A"	48,500	749,810
(Cost $47,468,907)		**48,864,875**
Total Common Stocks (Cost $137,834,059)		**120,070,499**

Securities Lending Collateral 13.9%

	Shares	Value ($)
Daily Assets Fund Institutional, 1.69% (d) (e) (Cost $17,084,496)	17,084,496	**17,084,496**

Cash Equivalents 1.3%

	Shares	Value ($)
Cash Management QP Trust, 1.42% (d) (Cost $1,583,652)	1,583,652	**1,583,652**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $156,502,207)†	113.2	**138,738,647**
Other Assets and Liabilities, Net	(13.2)	**(16,194,822)**
Net Assets	100.0	**122,543,825**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $158,829,287. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $20,090,640. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $24,728,164 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $44,818,804.*

(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, 2008 amounted to $16,526,028, which is 13.5% of net assets.*

(b) *Security is listed in country of domicile. Significant business activities of the company are in Norway.*

(c) *Security is listed in country of domicile. Significant business activities of the company are in China.*

(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.

ADR: American Depositary Receipt

GDR: Global Depositary Receipt

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**
Level 1	$ 71,719,009
Level 2	67,019,638
Level 3	—
Total	**$ 138,738,647**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investments in securities, at value (cost $137,834,059), including $16,526,028 of securities loaned	$ 120,070,499
Investment in Daily Assets Fund Institutional (cost $17,084,496)*	17,084,496
Investment in Cash Management QP Trust (cost $1,583,652)	1,583,652
Total investments, at value (cost $156,502,207)	138,738,647
Cash	418
Foreign currency, at value (cost $27,783)	28,197
Receivable for investments sold	847,640
Dividends receivable	39,412
Interest receivable	31,710
Receivable for Portfolio shares sold	82,512
Foreign taxes recoverable	24,745
Other assets	38,829
Total assets	139,832,110

Liabilities	
Payable for Portfolio shares redeemed	15,150
Payable upon return of securities loaned	17,084,496
Accrued management fee	60,395
Accrued distribution service fee (Class B)	1,040
Other accrued expenses and payables	127,204
Total liabilities	17,288,285
Net assets, at value	**$ 122,543,825**

Net Assets Consist of	
Undistributed net investment income	298,854
Net unrealized appreciation (depreciation) on:	
Investments	(17,763,560)
Foreign currency	(915)
Accumulated net realized gain (loss)	(14,322,470)
Paid-in capital	154,331,916
Net assets, at value	**$ 122,543,825**
Class A	
Net Asset Value, offering and redemption price per share ($117,421,297 ÷ 15,069,861 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 7.79**
Class B	
Net Asset Value, offering and redemption price per share ($5,122,528 ÷ 669,567 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 7.65**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $323,075)	$ 5,015,732
Interest	4,084
Interest — Cash Management QP Trust	117,270
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	623,481
Total Income	5,760,567
Expenses:	
Management fee	2,040,460
Administration fee	229,265
Custodian fee	152,041
Distribution service fee (Class B)	22,275
Services to shareholders	1,037
Record keeping fee (Class B)	5,578
Professional fees	79,387
Trustees' fees and expenses	11,624
Reports to shareholders	9,453
Other	19,828
Total expenses before expense reductions	2,570,948
Expense reductions	(283,039)
Total expenses after expense reductions	2,287,909
Net investment income (loss)	**3,472,658**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(11,343,628)
Foreign currency	(70,789)
	(11,414,417)
Change in net unrealized appreciation (depreciation) on:	
Investments	(135,414,718)
Foreign currency	(18,560)
	(135,433,278)
Net gain (loss)	**(146,847,695)**
Net increase (decrease) in net assets resulting from operations	**$ (143,375,037)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 3,472,658	$ 1,523,675
Net realized gain (loss)	(11,414,417)	41,714,536
Change in net unrealized appreciation (depreciation)	(135,433,278)	(9,538,525)
Net increase (decrease) in net assets resulting from operations	(143,375,037)	33,699,686
Distributions to shareholders from:		
Net investment income:		
Class A	(606,759)	(4,162,201)
Class B	—	(385,143)
Net realized gains:		
Class A	(38,799,742)	(23,747,876)
Class B	(1,584,503)	(2,659,501)
Total distributions	(40,991,004)	(30,954,721)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	9,798,954	25,551,412
Reinvestment of distributions	39,406,501	27,910,077
Cost of shares redeemed	(64,901,647)	(76,124,259)
Net increase (decrease) in net assets from Class A share transactions	(15,696,192)	(22,662,770)
Class B		
Proceeds from shares sold	887,328	2,661,166
Reinvestment of distributions	1,584,503	3,044,644
Cost of shares redeemed	(2,362,537)	(30,666,540)
Net increase (decrease) in net assets from Class B share transactions	109,294	(24,960,730)
Increase (decrease) in net assets	(199,952,939)	(44,878,535)
Net assets at beginning of period	322,496,764	367,375,299
Net assets at end of period (including undistributed net investment income and accumulated distributions in excess of net investment income of $298,854 and $4,870,687, respectively)	**$ 122,543,825**	**$ 322,496,764**

Other Information		
Class A		
Shares outstanding at beginning of period	16,980,253	18,234,839
Shares sold	754,392	1,377,801
Shares issued to shareholders in reinvestment of distributions	2,730,873	1,512,741
Shares redeemed	(5,395,657)	(4,145,128)
Net increase (decrease) in Class A shares	(1,910,392)	(1,254,586)
Shares outstanding at end of period	**15,069,861**	**16,980,253**
Class B		
Shares outstanding at beginning of period	673,793	2,034,192
Shares sold	67,771	144,813
Shares issued to shareholders in reinvestment of distributions	111,428	167,013
Shares redeemed	(183,425)	(1,672,225)
Net increase (decrease) in Class B shares	(4,226)	(1,360,399)
Shares outstanding at end of period	**669,567**	**673,793**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$18.28**	**$18.15**	**$15.00**	**$12.77**	**$10.38**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.20[e]	.08[d]	.03[c]	.04	.01
Net realized and unrealized gain (loss)	(8.18)	1.61	3.28	2.27	2.41
Total from investment operations	(7.98)	1.69	3.31	2.31	2.42
Less distributions from:					
Net investment income	(.04)	(.23)	(.16)	(.08)	(.03)
Net realized gains	(2.47)	(1.33)	—	—	—
Total distributions	(2.51)	(1.56)	(.16)	(.08)	(.03)
Net asset value, end of period	**$ 7.79**	**$18.28**	**$18.15**	**$15.00**	**$12.77**
Total Return (%)	(49.96)[b]	9.33[b]	22.08[c]	18.19	23.35
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	117	310	331	285	232
Ratio of expenses before expense reductions (%)	1.11	1.14	1.12	1.17	1.18
Ratio of expenses after expense reductions (%)	.99	1.12	1.12	1.17	1.18
Ratio of net investment income (loss) (%)	1.53[e]	.45[d]	.16[c]	.32	.09
Portfolio turnover rate (%)	21	19	28	30	24

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 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 the 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.*
e *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.05 per share and 0.37% of average daily net assets, respectively.*

Class B

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$18.03**	**$17.93**	**$14.84**	**$12.62**	**$10.25**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.16[f]	.01[e]	(.00)[b,d]	.03	(.01)
Net realized and unrealized gain (loss)	(8.07)	1.61	3.24	2.24	2.38
Total from investment operations	(7.91)	1.62	3.24	2.27	2.37
Less distributions from:					
Net investment income	—	(.19)	(.15)	(.05)	—
Net realized gains	(2.47)	(1.33)	—	—	—
Total distributions	(2.47)	(1.52)	(.15)	(.05)	—
Net asset value, end of period	**$ 7.65**	**$18.03**	**$17.93**	**$14.84**	**$12.62**
Total Return (%)	(50.16)[c]	8.92[c]	21.88[c,d]	18.06[c]	23.12[c]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	5	12	37	33	24
Ratio of expenses before expense reductions (%)	1.42	1.53	1.51	1.54	1.52
Ratio of expenses after expense reductions (%)	1.30	1.50	1.31	1.24	1.39
Ratio of net investment income (loss) (%)	1.21[f]	.07[e]	(.03)[d]	.25	(.12)
Portfolio turnover rate (%)	21	19	28	30	24

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 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 the 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.*
f *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.05 per share and 0.37% 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.

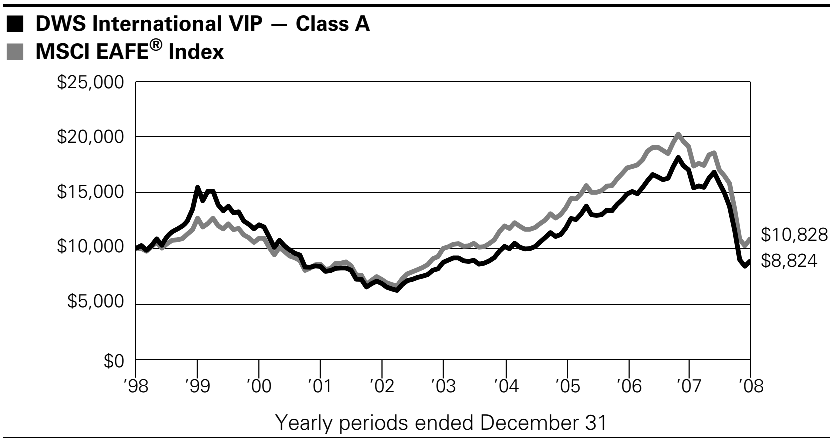
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.94% and 1.19% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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 risks, 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 risks, 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	$5,179	$7,472	$10,115	$8,824
	Average annual total return	–48.21%	–9.26%	.23%	–1.24%
MSCI EAFE® Index	Growth of $10,000	$5,662	$7,953	$10,857	$10,828
	Average annual total return	–43.38%	–7.35%	1.66%	.80%

DWS International VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$5,175	$7,417	$9,976	$8,623
	Average annual total return	–48.25%	–9.48%	–.05%	–1.47%
MSCI EAFE® Index	Growth of $10,000	$5,662	$7,953	$10,857	$10,828
	Average annual total return	–43.38%	–7.35%	1.66%	.80%

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, 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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 556.30	$ 557.20
Expenses Paid per $1,000*	$ 3.79	$ 4.78
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,020.26	$1,019.00
Expenses Paid per $1,000*	$ 4.93	$ 6.19

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

Annualized Expense Ratios	Class A	Class B
DWS Variable Series I — DWS International VIP	.97%	1.22%

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

The MSCI EAFE® Index (the Portfolio's benchmark) returned –43.38% during the 12-month period ended December 31, 2008, a year that was characterized by the rapid expansion of the global financial crisis, slowing economic growth and sharply elevated investor risk aversion. During the same period, Class A shares of the Portfolio returned –48.21% (unadjusted for contract charges), underperforming the index. The primary reason for underperformance was the Portfolio's level of risk exposure coming into the autumn downturn. Starting in mid-August, we sought to reduce risk by decreasing the Portfolio's weightings in higher-risk areas such as mid- and small-caps, emerging-market stocks and cyclicals. Unfortunately, we did not make these changes quickly enough to prevent underperformance.

For the full year, the Portfolio's return was helped by an underweight in financials and favorable stock selection in the information technology and health care sectors, but this was offset by weaker stock selection in the consumer staples and consumer discretionary sectors.[1] The leading contributors to performance included iShares MSCI Japan Index Fund, BASF SE and China Mobile Ltd. The most significant detractors were the Russian gas company Gazprom and the brewer Carlsberg AS.

Believing that recovery in the global economy will likely occur slowly, we are maintaining a defensive positioning in the Portfolio. We believe sectors with high cash flows, stable earnings and a low sensitivity to economic trends, such as health care and telecommunications are well positioned in this market. At the same time, the Portfolio is underweight in areas that are more dependent on economic growth, such as industrials, financials and the consumer discretionary sector. Although defensive for now, we are also keeping a close eye on stock-specific opportunities given that dividend yields are attractive and price-to-book values are at their lowest level of the past 10–15 years.

Joseph Axtell, CFA
Portfolio Manager

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.

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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS International VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	93%	98%
Exchange Traded Funds	5%	—
Cash Equivalents	2%	—
Preferred Stocks	—	2%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/08**	**12/31/07**
Continental Europe	62%	53%
Japan	22%	14%
United Kingdom	8%	15%
Pacific Basin	5%	7%
Latin America	2%	3%
Australia	—	3%
Middle East	—	3%
Other	1%	2%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/08**	**12/31/07**
Health Care	22%	6%
Financials	20%	22%
Telecommunication Services	12%	9%
Energy	11%	5%
Consumer Staples	10%	7%
Utilities	4%	5%
Industrials	8%	17%
Materials	8%	10%
Information Technology	5%	5%
Consumer Discretionary	—	14%
	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 49. A complete list of portfolio holdings of the Portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 VIP

	Shares	Value ($)
Common Stocks 93.1%		
Austria 2.1%		
Intercell AG* (a) (Cost $5,900,688)	203,044	**6,225,455**
Brazil 1.1%		
Petroleo Brasileiro SA (ADR) (Cost $6,908,534)	132,700	**3,249,823**
Canada 0.8%		
Potash Corp. of Saskatchewan, Inc. (Cost $4,038,322)	31,221	**2,264,543**
China 2.1%		
China Life Insurance Co., Ltd. "H" (Cost $7,675,110)	2,054,200	**6,330,186**
Denmark 3.5%		
Carlsberg AS "B"	122,625	4,025,899
Novo Nordisk AS "B"	127,500	6,488,396
(Cost $20,683,392)		**10,514,295**
Finland 2.9%		
Fortum Oyj	253,300	5,440,729
Nokia Oyj	201,000	3,116,089
(Cost $15,817,151)		**8,556,818**
France 8.7%		
Alstom SA	50,830	3,001,655
AXA SA	225,021	5,016,775
BNP Paribas	91,224	3,852,060
Societe Generale	100,059	5,067,741
Total SA	166,273	9,064,817
(Cost $29,786,169)		**26,003,048**
Germany 18.4%		
Allianz SE (Registered)	57,948	6,215,391
BASF SE	133,400	5,271,239
Bayer AG	117,992	6,931,411
Deutsche Boerse AG	83,700	6,096,062
Deutsche Telekom AG (Registered)	441,000	6,700,361
E.ON AG	128,504	5,196,337
Fresenius Medical Care AG & Co. KGaA	99,682	4,674,401
Gerresheimer AG	128,308	3,517,674
Linde AG	46,200	3,909,605
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	39,700	6,238,736
(Cost $53,732,769)		**54,751,217**
Hong Kong 2.2%		
China Mobile Ltd. (Cost $7,033,629)	637,500	**6,463,488**
Ireland 1.0%		
CRH PLC (Cost $2,997,259)	114,700	**2,894,760**
Italy 2.7%		
Intesa Sanpaolo	1,337,500	4,817,583
Saipem SpA	197,500	3,316,293
(Cost $16,369,994)		**8,133,876**
Japan 16.4%		
Astellas Pharma, Inc.	124,100	5,049,802
Canon, Inc.	189,150	5,937,710
East Japan Railway Co.	85,500	6,657,465
Japan Tobacco, Inc.	1,869	6,189,013
Mitsubishi Corp.	250,500	3,516,630
Mitsubishi UFJ Financial Group, Inc.	660,100	4,095,870
Nintendo Co., Ltd.	11,600	4,456,661
Nippon Telegraph & Telephone Corp.	81,000	4,334,502
Seven & I Holdings Co., Ltd.	128,000	4,385,245
Terumo Corp.	90,300	4,228,840
(Cost $52,715,201)		**48,851,738**
Luxembourg 0.9%		
ArcelorMittal (Cost $4,915,693)	114,170	**2,751,863**
Mexico 0.6%		
America Movil SAB de CV "L" (ADR) (Cost $3,372,337)	59,600	**1,847,004**
Norway 2.4%		
DnB NOR ASA	448,100	1,789,984
StatoilHydro ASA	325,400	5,359,426
(Cost $14,620,371)		**7,149,410**
Russia 1.1%		
Gazprom (ADR) (Cost $8,840,547)	219,400	**3,139,524**
Singapore 1.2%		
United Overseas Bank Ltd. (Cost $5,690,961)	397,000	**3,583,743**
Spain 3.1%		
Telefonica SA (Cost $7,881,341)	411,463	**9,223,134**
Switzerland 13.9%		
ABB Ltd. (Registered)*	329,231	4,962,898
Lonza Group AG (Registered)	53,091	4,907,996
Nestle SA (Registered)	239,973	9,457,954
Novartis AG (Registered)	183,869	9,212,662
Roche Holding AG (Genusschein)	61,048	9,397,344
Xstrata PLC	366,059	3,412,633
(Cost $44,490,633)		**41,351,487**
United Kingdom 8.0%		
AMEC PLC	296,311	2,114,926
Babcock International Group PLC	178,511	1,227,980
BAE Systems PLC	427,314	2,328,969
BG Group PLC	310,040	4,304,523
HSBC Holdings PLC	254,314	2,434,097
Imperial Tobacco Group PLC	179,325	4,790,332
Vodafone Group PLC	3,363,709	6,771,529
(Cost $33,019,533)		**23,972,356**
Total Common Stocks (Cost $346,489,634)		**277,257,768**

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

	Shares	Value ($)
Exchange Traded Fund 4.8%		
Japan		
iShares MSCI Japan Index Fund (a) (Cost $17,641,521)	1,477,990	**14,188,704**
Securities Lending Collateral 1.2%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $3,581,750)	3,581,750	**3,581,750**
Cash Equivalents 1.6%		
Cash Management QP Trust, 1.42% (b) (Cost $4,912,228)	4,912,228	**4,912,228**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $372,625,133)†	100.7	**299,940,450**
Other Assets and Liabilities, Net	(0.7)	**(2,180,816)**
Net Assets	100.0	**297,759,634**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $375,669,028. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $75,728,578. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,641,676 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $97,370,254.*

(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, 2008 amounted to $3,462,631, which is 1.2% 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

MSCI: Morgan Stanley Capital International

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**
Level 1	$ 28,271,348
Level 2	271,669,102
Level 3	—
Total	**$ 299,940,450**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investments in securities, at value (cost $364,131,155), including $3,462,631 of securities loaned	$ 291,446,472
Investment in Daily Assets Fund Institutional (cost $3,581,750)*	3,581,750
Investment in Cash Management QP Trust (cost $4,912,228)	4,912,228
Total investments, at value (cost $372,625,133)	299,940,450
Foreign currency, at value (cost $1,144,364)	1,139,056
Dividends receivable	528,481
Interest receivable	12,638
Receivable for Portfolio shares sold	294,967
Foreign taxes recoverable	174,253
Other assets	13,892
Total assets	302,103,737
Liabilities	
Cash overdraft	3,198
Payable for Portfolio shares redeemed	422,617
Payable upon return of securities loaned	3,581,750
Accrued management fee	72,431
Accrued distriubtion service fee (Class B)	81
Other accrued expenses and payables	264,026
Total liabilities	4,344,103
Net assets, at value	**$ 297,759,634**
Net Assets Consist of	
Undistributed net investment income	13,320,593
Net unrealized appreciation (depreciation) on:	
Investments	(72,684,683)
Foreign currency	(22,154)
Accumulated net realized gain (loss)	(120,039,058)
Paid-in capital	477,184,936
Net assets, at value	**$ 297,759,634**
Class A	
Net Asset Value, offering and redemption price per share ($297,365,049 ÷ 45,605,566 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.52**
Class B	
Net Asset Value, offering and redemption price per share ($394,585 ÷ 60,497 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.52**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $1,421,293)	$ 18,201,162
Interest	49,110
Interest — Cash Management QP Trust	203,706
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	759,041
Other income	6,749
Total Income	19,219,768
Expenses:	
Management fee	3,994,718
Administration fee	519,230
Custodian fee	473,256
Distribution service fee (Class B)	9,785
Services to shareholders	2,789
Record keeping fee (Class B)	3,228
Professional fees	94,496
Trustees' fees and expenses	27,641
Reports to shareholders	50,009
Other	67,427
Total expenses before expense reductions	5,242,579
Expense reductions	(216,496)
Total expenses after expense reductions	5,026,083
Net investment income (loss)	**14,193,685**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments (net of foreign taxes of $13,109)	(117,379,961)
Foreign currency	(708,199)
Payments by affiliates (See Note H)	304,364
	(117,783,796)
Change in net unrealized appreciation (depreciation) on:	
Investments (net of deferred foreign tax credit of $152,816)	(202,765,850)
Foreign currency	(45,588)
	(202,811,438)
Net gain (loss)	**(320,595,234)**
Net increase (decrease) in net assets resulting from operations	**$ (306,401,549)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 14,193,685	$ 11,097,935
Net realized gain (loss)	(117,783,796)	163,447,235
Change in net unrealized appreciation (depreciation)	(202,811,438)	(70,490,293)
Net increase (decrease) in net assets resulting from operations	(306,401,549)	104,054,877
Distributions to shareholders from:		
Net investment income:		
Class A	(7,239,383)	(17,645,331)
Class B	(82,273)	(1,050,909)
Net realized gains:		
Class A	(94,147,000)	—
Class B	(1,663,249)	—
Total distributions	(103,131,905)	(18,696,240)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	22,286,975	64,649,737
Reinvestment of distributions	101,386,383	17,645,331
Cost of shares redeemed	(121,263,622)	(163,705,768)
Net increase (decrease) in net assets from Class A share transactions	2,409,736	(81,410,700)
Class B		
Proceeds from shares sold	338,048	1,213,337
Reinvestment of distributions	1,745,522	1,050,909
Cost of shares redeemed	(11,371,669)	(45,235,722)
Net increase (decrease) in net assets from Class B share transactions	(9,288,099)	(42,971,476)
Increase (decrease) in net assets	(416,411,817)	(39,023,539)
Net assets at beginning of period	714,171,451	753,194,990
Net assets at end of period (including undistributed net investment income of $13,320,593 and $7,187,701, respectively)	**$ 297,759,634**	**$ 714,171,451**

Other Information		
Class A		
Shares outstanding at beginning of period	46,761,118	52,299,023
Shares sold	2,117,696	4,471,485
Shares issued to shareholders in reinvestment of distributions	8,413,808	1,243,505
Shares redeemed	(11,687,056)	(11,252,895)
Net increase (decrease) in Class A shares	(1,155,552)	(5,537,905)
Shares outstanding at end of period	**45,605,566**	**46,761,118**
Class B		
Shares outstanding at beginning of period	818,856	3,829,429
Shares sold	26,121	84,891
Shares issued to shareholders in reinvestment of distributions	144,736	74,060
Shares redeemed	(929,216)	(3,169,524)
Net increase (decrease) in Class B shares	(758,359)	(3,010,573)
Shares outstanding at end of period	**60,497**	**818,856**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$15.01**	**$13.42**	**$10.85**	**$ 9.50**	**$ 8.26**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.29[e]	.21[d]	.28[c]	.15	.09
Net realized and unrealized gain (loss)	(6.46)	1.73	2.51	1.36	1.26
Total from investment operations	(6.17)	1.94	2.79	1.51	1.35
Less distributions from:					
Net investment income	(.17)	(.35)	(.22)	(.16)	(.11)
Net realized gains	(2.15)	—	—	—	—
Total distributions	(2.32)	(.35)	(.22)	(.16)	(.11)
Net asset value, end of period	**$ 6.52**	**$15.01**	**$13.42**	**$10.85**	**$ 9.50**
Total Return (%)	(48.21)[b,f]	14.59	25.91	16.17	16.53
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	297	702	702	558	533
Ratio of expenses before expense reductions (%)	1.01	.98	.98	1.02	1.04
Ratio of expenses after expense reductions (%)	.97	.98	.98	1.02	1.04
Ratio of net investment income (loss) (%)	2.74[e]	1.48[d]	2.32[c]	1.59	1.05
Portfolio turnover rate (%)	123	108	105	59	73

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.*

e *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.09 per share and 0.82% of average daily net assets, respectively.*

f *Includes a reimbursement from the Advisor to reimburse the effect of losses incurred as the result of certain operation errors during the period. Excluding this reimbursement, total return would have been 0.06% lower.*

Class B

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.98**	**$13.38**	**$10.82**	**$ 9.48**	**$ 8.24**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.23[e]	.16[d]	.24[c]	.12	.06
Net realized and unrealized gain (loss)	(6.43)	1.73	2.50	1.35	1.27
Total from investment operations	(6.20)	1.89	2.74	1.47	1.33
Less distributions from:					
Net investment income	(.11)	(.29)	(.18)	(.13)	(.09)
Net realized gains	(2.15)	—	—	—	—
Total distributions	(2.26)	(.29)	(.18)	(.13)	(.09)
Net asset value, end of period	**$ 6.52**	**$14.98**	**$13.38**	**$10.82**	**$ 9.48**
Total Return (%)	(48.25)[b,f]	14.25[b]	25.44[b]	15.71[b]	16.24[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.40	12	51	40	35
Ratio of expenses before expense reductions (%)	1.33	1.41	1.37	1.41	1.38
Ratio of expenses after expense reductions (%)	1.28	1.39	1.36	1.37	1.35
Ratio of net investment income (loss) (%)	2.42[e]	1.07[d]	1.94[c]	1.24	.74
Portfolio turnover rate (%)	123	108	105	59	73

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.*

e *Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.09 per share and 0.82% of average daily net assets, respectively.*

f *Includes a reimbursement from the Advisor to reimburse the effect of losses incurred as the result of certain operation errors during the period. Excluding this reimbursement, total return would have been 0.06% lower.*

DWS Health Care VIP

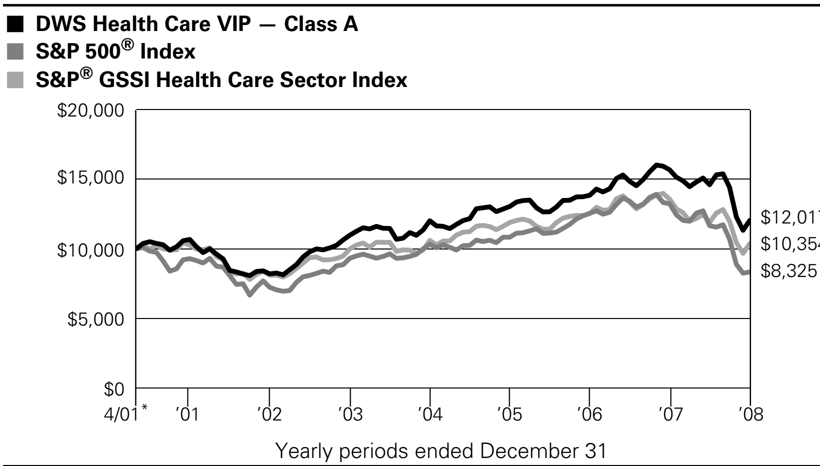
All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less then their original 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, 2008 are 0.90% 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, 2008.

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	$7,680	$9,230	$10,975	$12,017
	Average annual total return	–23.20%	–2.64%	1.88%	2.42%
S&P 500 Index	Growth of $10,000	$6,300	$7,696	$8,953	$8,325
	Average annual total return	–37.00%	–8.36%	–2.19%	–2.36%
S&P GSSI Health Care Sector Index	Growth of $10,000	$7,641	$8,721	$10,390	$10,354
	Average annual total return	–23.59%	–4.46%	.77%	.45%

DWS Health Care VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$7,650	$9,134	$10,775	$14,531
	Average annual total return	–23.50%	–2.97%	1.50%	5.92%
S&P 500 Index	Growth of $10,000	$6,300	$7,696	$8,953	$10,335
	Average annual total return	–37.00%	–8.36%	–2.19%	.51%
S&P GSSI Health Care Sector Index	Growth of $10,000	$7,641	$8,721	$10,390	$12,396
	Average annual total return	–23.59%	–4.46%	.77%	3.35%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 824.60	$ 822.60
Expenses Paid per $1,000*	$ 4.17	$ 5.77
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,020.56	$1,018.80
Expenses Paid per $1,000*	$ 4.62	$ 6.39

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

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Health Care VIP	.91%	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 Health Care VIP

During a period of economic weakness and instability in the financial system, which led investors to favor more defensive sectors such as health care, DWS Health Care VIP posted a negative return but strongly outperformed the general market with a –23.20% total return for its most recent fiscal year ended December 31, 2008 (Class A shares, unadjusted for contract charges). In comparison, the Standard & Poor's® 500 (S&P 500) Index returned –37.00% and the S&P GSSI Healthcare Sector Index returned –23.59% over the same period.

The portfolio's underweight positions in Medtronic, Inc., Merck & Co., Inc. and UnitedHealth Group, Inc., relative to the benchmark, helped performance during the annual period.[1] Medtronic shares declined due to deteriorating trends in four of its five major businesses, while Merck shares were negatively impacted by concerns over its cholesterol drug franchise following disappointing data from clinical studies. In addition, sales trends for the company's key drugs were weaker than expected. UnitedHealth shares also declined significantly, as the company lowered its earnings forecast to reflect pressure on profit margins from higher medical costs and weaker than expected enrollment trends. The largest detractors from the Portfolio's relative performance came from underweight positions in Pfizer, Inc. and Johnson & Johnson. These companies' shares, representing meaningful weightings within the portfolio's benchmarks, held up better than industry averages during the period as investors favored more defensive, large-cap issues during the financial and economic crisis.

We believe that health care stocks should continue to outperform the general market as worries about the global economy and the credit crisis overshadow concerns over the potential impact of health care reform on sector financials. Despite the potential for declines in health care consumption due to higher drug co-payments, rising unemployment and the deferral of medical procedures, we think this sector is well positioned in the current environment. We expect health care reform to eventually lower overall health care spending. However, we are not convinced that major changes to the industry will be enacted and implemented before 2010.

The following person is responsible for the day-to-day management of the Portfolio.

Leefin Lai, CFA, CPA
Portfolio Manager

The following person serves as a consultant to the Advisor of the Portfolio.

Thomas E. Bucher, CFA
Consultant

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.

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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Health Care VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	98%	99%
Cash Equivalents	2%	1%
	100%	100%

Industry Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Pharmaceuticals	31%	31%
Biotechnology	26%	21%
Medical Supply & Specialty	20%	21%
Health Care Services	17%	22%
Life Sciences Equipment	6%	5%
	100%	100%

Asset allocation and industry diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 58. A complete list of portfolio holdings of the Portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 98.3%		
Health Care 98.3%		
Biotechnology 25.6%		
Acorda Therapeutics, Inc.*	9,100	186,641
Alexion Pharmaceuticals, Inc.* (a)	23,500	850,465
Allos Therapeutics, Inc.*	35,300	216,036
Amgen, Inc.*	36,450	2,104,987
Biogen Idec, Inc.*	25,720	1,225,044
BioMarin Pharmaceutical, Inc.* (a)	37,100	660,380
Celera Corp.*	33,800	376,194
Celgene Corp.*	32,460	1,794,389
Cepheid, Inc.*	17,400	180,612
Gen-Probe, Inc.*	11,000	471,240
Genentech, Inc.*	21,500	1,782,565
Genmab A/S*	4,500	173,620
Genzyme Corp.*	32,800	2,176,936
Gilead Sciences, Inc.*	50,800	2,597,912
Human Genome Sciences, Inc.*	48,200	102,184
Incyte Corp.*	52,200	197,838
OSI Pharmaceuticals, Inc.*	5,200	203,060
Regeneron Pharmaceuticals, Inc.*	18,100	332,316
Rigel Pharmaceuticals, Inc.*	11,300	90,400
United Therapeutics Corp.*	5,400	337,770
Vertex Pharmaceuticals, Inc.* (a)	7,200	218,736
		16,279,325
Health Care Services 16.1%		
Aetna, Inc.	24,700	703,950
Allscripts-Misys Healthcare Solutions, Inc. (a)	43,500	431,520
Covance, Inc.*	8,900	409,667
CVS Caremark Corp.	32,931	946,437
Express Scripts, Inc.*	14,400	791,712
Fresenius Medical Care AG & Co. KGaA	24,097	1,129,984
Laboratory Corp. of America Holdings*	16,400	1,056,324
McKesson Corp.	22,200	859,806
Medco Health Solutions, Inc.*	22,268	933,252
Quality Systems, Inc. (a)	9,500	414,390
Quest Diagnostics, Inc.	24,300	1,261,413
UnitedHealth Group, Inc.	21,900	582,540
WellPoint, Inc.*	18,200	766,766
		10,287,761
Life Sciences Tools & Services 5.8%		
Charles River Laboratories International, Inc.*	10,900	285,580
Illumina, Inc.*	10,600	276,130
Life Technologies Corp.*	17,028	396,932
Mettler-Toledo International, Inc.*	8,800	593,120
Pharmaceutical Product Development, Inc.	14,700	426,447
Thermo Fisher Scientific, Inc.*	50,000	1,703,500
		3,681,709
Medical Supply & Specialty 20.0%		
Alcon, Inc.	8,400	749,196
Baxter International, Inc.	49,600	2,658,064
Beckman Coulter, Inc.	6,900	303,186
Becton, Dickinson & Co.	27,600	1,887,564
C.R. Bard, Inc.	15,800	1,331,308
Covidien Ltd.	43,100	1,561,944
Hologic, Inc.*	26,400	345,048
Masimo Corp.*	11,600	346,028
Medtronic, Inc.	34,900	1,096,558
ResMed, Inc.*	10,200	382,296
Stryker Corp. (a)	26,400	1,054,680
Wright Medical Group, Inc.*	13,400	273,762
Zimmer Holdings, Inc.*	18,900	763,938
		12,753,572
Pharmaceuticals 30.8%		
Abbott Laboratories	31,600	1,686,492
Allergan, Inc.	18,600	749,952
Astellas Pharma, Inc.	21,800	887,072
Bristol-Myers Squibb Co.	61,500	1,429,875
Cardiome Pharma Corp.*	22,000	100,100
Eli Lilly & Co.	32,100	1,292,667
Johnson & Johnson	31,600	1,890,628
Merck & Co., Inc.	52,400	1,592,960
Merck KGaA	9,462	860,262
Mylan, Inc.* (a)	92,100	910,869
Novartis AG (Registered)	17,897	896,720
Pfizer, Inc.	63,940	1,132,377
Roche Holding AG (Genusschein)	14,711	2,264,519
Sanofi-Aventis	7,538	478,768
Schering-Plough Corp.	61,500	1,047,345
Shire PLC (ADR)	17,400	779,172
Wyeth	37,400	1,402,874
XenoPort, Inc.*	9,500	238,261
		19,640,913
Total Common Stocks (Cost $56,129,449)		**62,643,280**
Securities Lending Collateral 6.1%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $3,866,250)	3,866,250	**3,866,250**
Cash Equivalents 1.8%		
Cash Management QP Trust, 1.42% (b) (Cost $1,166,346)	1,166,346	**1,166,346**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $61,162,045)†	106.2	**67,675,876**
Other Assets and Liabilities, Net	(6.2)	**(3,944,170)**
Net Assets	100.0	**63,731,706**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $61,733,891. At December 31, 2008, net unrealized appreciation for all securities based on tax cost was $5,941,985. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of*

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

value over tax cost of $14,546,491 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,604,506.

(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, 2008 amounted to $3,875,282, which is 6.1% of net assets.*

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

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

ADR: American Depositary Receipt

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**
Level 1	$ 59,818,585
Level 2	7,857,291
Level 3	—
Total	**$ 67,675,876**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $56,129,449), including $3,875,282 of securities loaned	$	62,643,280
Investment in Daily Assets Fund Institutional (cost $3,866,250)*		3,866,250
Investment in Cash Management QP Trust (cost $1,166,346)		1,166,346
Total investments, at value (cost $61,162,045)		67,675,876
Cash		7,698
Foreign currency, at value (cost $78,358)		79,948
Receivable for investments sold		225,791
Dividends receivable		85,037
Interest receivable		5,956
Receivable for Portfolio shares sold		61
Foreign taxes recoverable		19,992
Other assets		2,845
Total assets		68,103,204
Liabilities		
Payable for investments purchased		223,490
Payable for Portfolio shares redeemed		152,105
Payable upon return of securities loaned		3,866,250
Accrued management fee		34,689
Accrued distribution service fee (Class B)		707
Other accrued expenses and payables		94,257
Total liabilities		4,371,498
Net assets, at value	**$**	**63,731,706**
Net Assets Consist of		
Undistributed net investment income		724,957
Net unrealized appreciation (depreciation) on:		
Investments		6,513,831
Foreign currency		934
Accumulated net realized gain (loss)		(589,149)
Paid-in capital		57,081,133
Net assets, at value	**$**	**63,731,706**
Class A		
Net Asset Value, offering and redemption price per share ($60,232,294 ÷ 6,373,629 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.45**
Class B		
Net Asset Value, offering and redemption price per share ($3,499,412 ÷ 379,018 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.23**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $35,437)	$	1,356,362
Interest		1,294
Interest — Cash Management QP Trust		46,802
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		131,903
Total Income		1,536,361
Expenses:		
Management fee		600,311
Administration fee		90,272
Custodian fee		14,355
Distribution service fee (Class B)		11,468
Services to shareholders		419
Record keeping fee (Class B)		4,587
Professional fees		59,999
Trustees' fees and expenses		4,905
Reports to shareholders		36,465
Other		21,239
Total expenses before expense reductions		844,020
Expense reductions		(606)
Total expenses after expense reductions		843,414
Net investment income (loss)		**692,947**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(152,841)
Foreign currency		61,295
		(91,546)
Change in net unrealized appreciation (depreciation) on:		
Investments		(24,348,732)
Foreign currency		(17,254)
		(24,365,986)
Net gain (loss)		**(24,457,532)**
Net increase (decrease) in net assets resulting from operations	**$**	**(23,764,585)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 692,947	$ 173,147
Net realized gain (loss)	(91,546)	15,451,366
Change in net unrealized appreciation (depreciation)	(24,365,986)	(1,128,994)
Net increase (decrease) in net assets resulting from operations	(23,764,585)	14,495,519
Distributions to shareholders from:		
Net investment income:		
Class A	(269,428)	—
Net realized gains:		
Class A	(14,518,785)	(6,096,998)
Class B	(789,529)	(1,254,197)
Total distributions	(15,577,742)	(7,351,195)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	15,385,334	9,495,145
Reinvestment of distributions	14,788,213	6,096,998
Cost of shares redeemed	(31,046,167)	(24,413,031)
Net increase (decrease) in net assets from Class A share transactions	(872,620)	(8,820,888)
Class B		
Proceeds from shares sold	674,757	827,879
Reinvestment of distributions	789,529	1,254,197
Cost of shares redeemed	(1,414,568)	(18,374,489)
Net increase (decrease) in net assets from Class B share transactions	49,718	(16,292,413)
Increase (decrease) in net assets	(40,165,229)	(17,968,977)
Net assets at beginning of period	103,896,935	121,865,912
Net assets at end of period (including undistributed net investment income of $724,957 and $254,916, respectively)	**$ 63,731,706**	**$ 103,896,935**

Other Information		
Class A		
Shares outstanding at beginning of period	6,708,658	7,330,897
Shares sold	1,209,692	663,065
Shares issued to shareholders in reinvestment of distributions	1,271,557	431,188
Shares redeemed	(2,816,278)	(1,716,492)
Net increase (decrease) in Class A shares	(335,029)	(622,239)
Shares outstanding at end of period	**6,373,629**	**6,708,658**
Class B		
Shares outstanding at beginning of period	376,902	1,544,881
Shares sold	56,147	59,012
Shares issued to shareholders in reinvestment of distributions	69,318	90,295
Shares redeemed	(123,349)	(1,317,286)
Net increase (decrease) in Class B shares	2,116	(1,167,979)
Shares outstanding at end of period	**379,018**	**376,902**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.68**	**$13.77**	**$13.02**	**$12.00**	**$10.95**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.09[d]	.03[c]	(.01)[b]	(.02)	(.03)
Net realized and unrealized gain (loss)	(3.08)	1.75	.81	1.04	1.08
Total from investment operations	(2.99)	1.78	.80	1.02	1.05
Less distributions from:					
Net investment income	(.04)	—	—	—	—
Net realized gains	(2.20)	(.87)	(.05)	—	—
Total distributions	(2.24)	(.87)	(.05)	—	—
Net asset value, end of period	**$ 9.45**	**$14.68**	**$13.77**	**$13.02**	**$12.00**
Total Return (%)	(23.20)	13.20	6.17[b]	8.50	9.59
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	60	98	101	109	109
Ratio of expenses (%)	.92	.93	.89	.88	.88
Ratio of net investment income (loss) (%)	.79[d]	.19[c]	(.03)[b]	(.18)	(.29)
Portfolio turnover rate (%)	24	37	47	43	77

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 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.*

d *Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.03 per share and 0.28% of average daily net assets, respectively.*

Class B

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.40**	**$13.55**	**$12.87**	**$11.91**	**$10.91**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.05[d]	(.03)[c]	(.06)[b]	(.07)	(.08)
Net realized and unrealized gain (loss)	(3.02)	1.75	.79	1.03	1.08
Total from investment operations	(2.97)	1.72	.73	.96	1.00
Less distributions from:					
Net realized gains	(2.20)	(.87)	(.05)	—	—
Net asset value, end of period	**$ 9.23**	**$14.40**	**$13.55**	**$12.87**	**$11.91**
Total Return (%)	(23.50)	12.88	5.77[b]	8.06	9.17
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	5	21	23	20
Ratio of expenses (%)	1.27	1.34	1.28	1.27	1.27
Ratio of net investment income (loss) (%)	.43[d]	(.22)[c]	(.42)[b]	(.57)	(.68)
Portfolio turnover rate (%)	24	37	47	43	77

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 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.*

d *Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.03 per share and 0.28% 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. DWS Bond VIP offers only one class of shares (Class A shares). DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Opportunities VIP, DWS International VIP and DWS Health Care VIP each offer two classes of shares (Class A shares and Class B shares). Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and record keeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the applicable Portfolio. Class A shares are not subject to such fees. On May 22, 2008, Class B shares of DWS Bond VIP were liquidated.

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 one or more broker-dealers. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end 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.

The Portfolio adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"), effective at the beginning of the Portfolio's fiscal year. FAS 157 establishes a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and requires additional disclosure about the classification of fair value measurements.

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

The aggregate value by input level, as of December 31, 2008, for the Portfolio's investments, as well as a reconciliation of Level 3 assets for which significant unobservable inputs were used in determining value, is included at the end of the Portfolio's Investment Portfolio.

New Accounting Pronouncement. In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 ("FAS 161"), "Disclosures about Derivative Instruments and Hedging Activities". FAS 161 requires enhanced disclosure about an entity's derivative and hedging activities including qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Management is currently reviewing the enhanced disclosure requirements for the adoption of FAS 161.

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. When the collateral falls below specified amounts, the lending agents will use their best efforts to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. 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. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Portfolio is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

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 use futures in circumstances where portfolio management believes they offer an economic means of gaining exposure to a particular asset class or to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market. In addition, the DWS Bond VIP, DWS Capital Growth VIP, DWS Global Opportunities VIP and DWS Health Care VIP Portfolios may use futures for hedging and for risk management or for non-hedging purposes to seek to enhance potential gains.

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. Risk of loss may exceed amounts recognized on the Statement of Assets and Liabilities.

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 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.

Senior Loans. DWS Bond VIP may invest in Senior Loans. Senior Loans 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 are corporate obligations often issued in connection with recapitalizations, acquisitions, leveraged buy-outs and refinancings. 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 Senior Loans involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

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.

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, 2008, 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 ($)	Expiration Date	Capital Loss Carryforwards Utilized ($)	Capital Loss Carryforwards Expired ($)
DWS Bond VIP	4,957,000	12/31/2014–12/31/2016	—	—
DWS Growth & Income VIP	27,889,000	12/31/2010–12/31/2016	—	—
DWS Capital Growth VIP	227,747,000	12/31/2009–12/31/2012	29,828,000	19,244,000

Portfolio	Capital Loss Carryforwards ($)	Expiration Date	Capital Loss Carryforwards Utilized ($)	Capital Loss Carryforwards Expired ($)
DWS Global Opportunities VIP	3,019,000	12/31/2016	—	—
DWS International VIP	77,707,000	12/31/2016	—	—

In addition, from November 1, 2008 through December 31, 2008, DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Opportunities VIP, DWS International VIP and DWS Health Care VIP incurred approximately $16,439,000, $10,255,000, 8,359,000, 10,758,000, 39,288,000 and $736,000, respectively, of 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, 2009.

At December 31, 2008, DWS Capital Growth VIP had a net tax basis capital loss carryforward of approximately $227,747,000, 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, range from December 31, 2009, to December 31, 2012, whichever occurs first, and which may be subject to certain limitations under Section 382–384 of the Internal Revenue Code. DWS Capital Growth VIP utilized approximately $8,084,000 of non-merger related losses. In addition, the Portfolio utilized approximately $21,744,000 of the inherited amounts, which is included in the table above. Due to certain limitations under Sections 382–384 of the Internal Revenue Code, approximately $19,244,000 of the losses from SVS Eagle Focused Large Cap Growth Portfolio and Scudder Growth Portfolio expired and approximately $332,000 of the losses from DWS Janus Growth Opportunities VIP cannot be used. These losses are excluded from the capital loss carryforward amount of $227,747,000 disclosed above.

Each Portfolio has reviewed the tax positions for the open tax years as of December 31, 2008 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, 2008, 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	11,876,139	—	(4,957,000)	(28,504,179)
DWS Growth & Income VIP	1,938,429	—	(27,889,000)	(32,890,694)
DWS Capital Growth VIP	7,945,917	—	(227,747,000)	10,574,440
DWS Global Opportunities VIP	2,083,686	—	(3,019,000)	(20,090,640)
DWS International VIP	13,320,593	—	(77,707,000)	(75,728,578)
DWS Health Care VIP	724,957	718,209	—	5,941,985

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	**2008**	**2007**	**2008**	**2007**
DWS Bond VIP	10,914,208	10,397,091	—	—
DWS Growth & Income VIP	15,760,111	3,685,275	26,232,152	4,265,414
DWS Capital Growth VIP	9,451,337	7,146,340	—	—
DWS Global Opportunities VIP	979,171	5,220,901	40,011,833	25,733,820
DWS International VIP	7,386,477	18,696,240	95,745,428	—
DWS Health Care VIP	3,006,032	—	12,571,710	7,351,195

* *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, 2008, purchases and sales of investment securities (excluding short-term investments) were as follows:

Portfolio	Purchases ($)	Sales ($)
DWS Bond VIP excluding US Treasury Obligations	116,593,956	126,836,594
US Treasury Obligations	264,754,396	288,981,537
DWS Growth & Income VIP	192,386,286	234,069,964
DWS Capital Growth VIP	182,722,249	315,927,818
DWS Global Opportunities VIP	47,740,750	96,017,563
DWS International VIP	630,020,593	730,062,614
DWS Health Care VIP	20,839,055	35,904,837

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.

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%

Prior to December 1, 2008, Aberdeen Asset Management, Inc. ("AAMI") and Aberdeen Asset Management Investment Services Limited ("AAMISL") served as DWS Bond VIP's subadvisor and sub-subadvisor, respectively. AAMI was 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 was responsible for the day-to-day management of the foreign securities, foreign currencies and related investments for DWS Bond VIP. The Portfolio's board has approved the termination of AAMI and AAMISL as the Portfolio's subadvisor and sub-subadvisor, respectively. Effective December 1, 2008, the Advisor assumed all day-to-day advisory responsibilities that were previously delegated to AAMI and AAMISL.

For the period from January 1, 2008 through April 30, 2008, 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 (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) as follows:

Portfolio	Annual Rate
DWS Bond VIP Class B	1.03%

In addition, for the period from January 1, 2008 through September 30, 2008, 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) 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, for the period from October 1, 2008 through September 30, 2009, 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) as follows:

Portfolio	Annual Rate
DWS Global Opportunities VIP Class A	.95%
DWS Global Opportunities VIP Class B	1.35%
DWS Health Care VIP Class B	1.49%

In addition, for the period from January 1, 2008 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) as follows:

Portfolio	Annual Rate
DWS Capital Growth VIP Class A	.49%
DWS Capital Growth VIP Class B	.82%
DWS Growth & Income VIP Class A	.54%
DWS Growth & Income VIP Class B	.87%
DWS International VIP Class A	.96%
DWS International VIP Class B	1.29%

In addition, for the period from January 1, 2008 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, 2008, the total management fee, management fee waived, and effective management fee rate are as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Annual Effective Rate
DWS Bond VIP	782,296	—	.39%
DWS Growth & Income VIP	592,051	83,657	.33%
DWS Capital Growth VIP	3,273,016	111,183	.36%
DWS Global Opportunities VIP	2,040,460	281,092	.77%
DWS International VIP	3,994,718	211,855	.73%
DWS Health Care VIP	600,311	—	.67%

In addition, for the year ended December 31, 2008, the Advisor waived record keeping expenses of Class B shares of each Portfolio as follows:

Portfolio	Waived ($)
DWS Capital Growth VIP	2,532
DWS International VIP	585

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, 2008, the Advisor received an Administration Fee as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2008 ($)
DWS Bond VIP	200,589	13,039
DWS Growth & Income VIP	151,808	7,812
DWS Capital Growth VIP	879,862	50,075
DWS Global Opportunities VIP	229,265	10,114
DWS International VIP	519,230	24,304
DWS Health Care VIP	90,272	5,275

Service Provider Fees. DWS Investments Service Company ("DISC"), 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 DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from each Portfolio. For the year ended December 31, 2008, the amounts charged to the Portfolios by DISC were as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Unpaid at December 31, 2008 ($)
DWS Bond VIP Class A	741	—	189
DWS Bond VIP Class B	19	—	—
DWS Growth & Income VIP Class A	622	241	381
DWS Growth & Income VIP Class B	121	—	23
DWS Capital Growth VIP Class A	886	886	—
DWS Capital Growth VIP Class B	94	94	—
DWS Global Opportunities VIP Class A	501	501	—
DWS Global Opportunities VIP Class B	159	—	63
DWS International VIP Class A	805	805	—
DWS International VIP Class B	45	—	—
DWS Health Care VIP Class A	254	—	57
DWS Health Care VIP Class B	99	—	33

DWS Investments Distributors, Inc. ("DIDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DIDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DIDI 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, 2008, the amount charged to the Portfolios by DIMA included in the Statement of Operations under "reports to shareholders" was as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2008 ($)
DWS Bond VIP	4,623	2,567
DWS Growth & Income VIP	8,322	2,495
DWS Capital Growth VIP	7,133	2,193
DWS Global Opportunities VIP	9,453	2,367
DWS International VIP	9,460	3,345
DWS Health Care VIP	8,427	3,447

Trustees' Fees and Expenses. Each Portfolio paid each Trustee not affiliated with the Advisor retainer fees plus specified amounts for various committee services and for the Board Chairperson and Vice Chairperson.

In connection with the board consolidation on April 1, 2008, of the two DWS Funds Boards of Trustees, certain Independent Board Members retired prior to their normal retirement date, and received a one-time retirement benefit. DIMA has agreed to reimburse the Portfolios for the cost of this benefit. During the period ended

December 31, 2008, each Portfolio paid its allocated portion, as follows, of the retirement benefit to the non-continuing Independent Board Members, and each Portfolio was reimbursed by DIMA for this payment:

Portfolio	Amount ($)
DWS Bond VIP	1,213
DWS Growth & Income VIP	988
DWS Capital Growth VIP	5,091
DWS Global Opportunities VIP	1,446
DWS International VIP	3,251
DWS Health Care VIP	535

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 and DWS International 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, 2008, the custodian fees were reduced as follows:

Portfolio	Custody Credits ($)
DWS Bond VIP	556
DWS Growth & Income VIP	40
DWS Capital Growth VIP	132
DWS Health Care VIP	71

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 63%.

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 32%, 28% and 15%. One participating insurance company was an owner of record, owning 89% of the total outstanding Class B shares of the Portfolio.

DWS Capital Growth VIP: Four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Portfolio, each owning 40%, 23%, 11% and 10%. One participating insurance company was an owner of record, owning 92% 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 53%, 18% and 11%. Two participating insurance companies were owners of record, each owning 63% and 35% 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 37% and 16%. Three participating insurance companies were owners of record, each owning 65%, 20% and 15% 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 70% and 20%. 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 $490 million revolving credit facility provided by a syndication of banks. The Portfolio may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at 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.

H. Payments Made by Affiliates

During the year ended December 31, 2008, the Advisor fully reimbursed DWS Bond VIP $221 for losses incurred on trades executed incorrectly. The amount of the losses was less than 0.01% of the Portfolio's average net asset, thus having no impact on the Portfolio's total return.

In addition, during the year ended December 31, 2008, the Advisor fully reimbursed DWS International VIP $304,364 for losses incurred on trades executed incorrectly.

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, 2008 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, 2008 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 13, 2009

PricewaterhouseCoopers LLP

Tax Information

(Unaudited)

DWS Growth & Income VIP, DWS Global Opportunities VIP, DWS International VIP and DWS Health Care VIP paid distributions of $1.46, $2.45, $2.15 and $1.81 per share, respectively, from net long-term capital gains during their year ended December 31, 2008, of which 100% represents 15% rate gains.

Pursuant to Section 852 of the Internal Revenue Code, DWS Health Care VIP designates approximately $804,000 as capital gain dividends for its year ended December 31, 2008, of which 100% represents 15% rate gains.

For corporate shareholders of DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Opportunities VIP and DWS Health Care VIP, 74%, 100%, 42% and 100%, respectively, of their respective income dividends paid during the Portfolios' fiscal year ended December 31, 2008 qualified for the dividends received deduction.

DWS Global Opportunities VIP and DWS International VIP paid foreign taxes of $236,000 and $1,140,104, respectively, and earned $1,947,000 and $14,248,491, respectively, of foreign source income during the year ended December 31, 2008. Pursuant to Section 853 of the Internal Revenue Code, DWS Global Opportunities VIP and DWS International VIP designate $0.01 and $0.02 per share, respectively, as foreign taxes paid and $0.06 and $0.31 per share, respectively, as income earned from foreign sources for the year ended December 31, 2008.

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

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 are available on our Web site — www.dws-investments.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 Board of Trustees, including the Independent Trustees, approved the renewal of your Fund's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA"), the sub-advisory agreement (the "Sub-Advisory Agreement") between DIMA and Aberdeen Asset Management, Inc. ("AAMI"), and the sub-sub-advisory agreement (the "Sub-Sub-Advisory Agreement," and together with the Agreement and Sub-Advisory Agreement, the "Agreements") between AAMI and Aberdeen Asset Management Investment Services Limited ("Aberdeen IS") in September 2008. As noted below, in the case of AAMI and Aberdeen IS, the Board also determined to terminate the Sub-Advisory Agreement and Sub-Sub-Advisory Agreement as of December 1, 2008.

In terms of the process that the Board 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. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by the Fund's independent fee consultant. The Board also received extensive information throughout the year regarding performance of the Fund.
- The Trustees regularly meet privately with their independent counsel (and, as needed, other advisors) to discuss contract review and other matters. In addition, the Trustees were also advised by the Fund's independent fee consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the independent fee consultant in connection with their deliberations (the "IFC Report").
- In connection with reviewing the Agreements, the Board also reviewed the terms of the administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Independent Trustees as a group. The Independent Trustees reviewed the Contract Committee's findings and recommendations and presented their recommendations to the full Board.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders at a special meeting held in 2006. DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Board believes 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.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's, AAMI's and Aberdeen IS's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreements, including the scope of advisory services provided under the Agreements. The Board noted that, under the Agreements, DIMA, AAMI and Aberdeen IS provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA, AAMI and Aberdeen IS to attract and retain high-quality personnel, and the organizational depth and stability of DIMA, AAMI and Aberdeen IS. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the independent fee consultant using information supplied by Lipper Inc. ("Lipper"). 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 DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 3rd quartile, 3rd quartile and 2nd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. The Board recognized that there have been significant changes in the Fund's management structure, including the termination of AAMI and Aberdeen IS as the Fund's sub-advisor and sub-sub-advisor, respectively, and the introduction of a new portfolio management team effective December 1, 2008.

On the basis of this evaluation and the ongoing review of investment results by the Board, the Board concluded that the nature, quality and extent of services provided by DIMA, AAMI and Aberdeen IS historically have been and continue to be satisfactory.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, sub-advisory and sub-sub-advisory fee schedules, operating expenses, and total expense ratios, and comparative information provided by Lipper and the independent fee consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were equal to the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory and sub-sub-advisory fees paid to AAMI and Aberdeen IS, the Board noted that the fees are paid by DIMA and AAMI, respectively, out of their fees and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007). The Board considered the Fund's management fee rate as compared to fees charged by DIMA and certain of its affiliates for comparable mutual funds and considered differences in fund and fee structures between the DWS Funds. 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).

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA, AAMI and Aberdeen IS.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Investments 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 the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed 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 Investments 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.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DWS Investments products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of 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.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the continuation of the Agreements is in the best interests of the Fund. In making this determination the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and 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 Agreements.

DWS Growth & Income VIP

The Board of Trustees, including the Independent Trustees, approved the renewal of your Fund's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2008.

In terms of the process that the Board followed prior to approving the Agreement, 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. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by the Fund's independent fee consultant. The Board also received extensive information throughout the year regarding performance of the Fund.
- The Trustees regularly meet privately with their independent counsel (and, as needed, other advisors) to discuss contract review and other matters. In addition, the Trustees were also advised by the Fund's independent fee consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the independent fee consultant in connection with their deliberations (the "IFC Report").
- In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.

- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Independent Trustees as a group. The Independent Trustees reviewed the Contract Committee's findings and recommendations and presented their recommendations to the full Board.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders at a special meeting held in 2006. DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Board believes 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.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the independent fee consultant using information supplied by Lipper Inc. ("Lipper"). 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 DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 4th quartile, 4th quartile and 3rd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board also observed that the Fund had experienced improved relative performance during the first six months of 2008. 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.

On the basis of this evaluation and the ongoing review of investment results by the Board, the Board concluded that the nature, quality and extent of services provided by DIMA historically have been and continue to be satisfactory.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses, and total expense ratios, and comparative information provided by Lipper and the independent fee consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses (excluding 12b-1 fees) were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA and certain of its affiliates for comparable mutual funds and considered differences in fund and fee structures between the DWS Funds. 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.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Investments 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 the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed 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 Investments 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.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DWS Investments products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of 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.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and 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 Agreement.

DWS Capital Growth VIP

The Board of Trustees, including the Independent Trustees, approved the renewal of your Fund's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2008.

In terms of the process that the Board followed prior to approving the Agreement, 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. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by the Fund's independent fee consultant. The Board also received extensive information throughout the year regarding performance of the Fund.
- The Trustees regularly meet privately with their independent counsel (and, as needed, other advisors) to discuss contract review and other matters. In addition, the Trustees were also advised by the Fund's independent fee consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the independent fee consultant in connection with their deliberations (the "IFC Report").
- In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Independent Trustees as a group. The Independent Trustees reviewed the Contract Committee's findings and recommendations and presented their recommendations to the full Board.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders at a special meeting held in 2006. DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Board believes 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.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreements, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the independent fee consultant using information supplied by Lipper Inc. ("Lipper"). 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 DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd quartile and 2nd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. 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.

On the basis of this evaluation and the ongoing review of investment results by the Board, the Board concluded that the nature, quality and extent of services provided by DIMA historically have been and continue to be satisfactory.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses, and total expense ratios, and comparative information provided by Lipper and the independent fee consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses (excluding 12b-1 fees) were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA and certain of its affiliates for comparable mutual funds and considered differences in fund and fee structures between the DWS Funds. 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.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Investments 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 the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed 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 Investments 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.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also

considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DWS Investments products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of 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.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and 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 Agreement.

DWS Global Opportunities VIP

The Board of Trustees, including the Independent Trustees, approved the renewal of your Fund's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2008.

In terms of the process that the Board followed prior to approving the Agreement, 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. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by the Fund's independent fee consultant. The Board also received extensive information throughout the year regarding performance of the Fund.
- The Trustees regularly meet privately with their independent counsel (and, as needed, other advisors) to discuss contract review and other matters. In addition, the Trustees were also advised by the Fund's independent fee consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the independent fee consultant in connection with their deliberations (the "IFC Report").
- In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Independent Trustees as a group. The Independent Trustees reviewed the Contract Committee's findings and recommendations and presented their recommendations to the full Board.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders at a special meeting held in 2006. DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Board believes 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.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the independent fee consultant using information supplied by Lipper Inc. ("Lipper"). 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 DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 3rd quartile, 1st quartile and 1st quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. 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.

On the basis of this evaluation and the ongoing review of investment results by the Board, the Board concluded that the nature, quality and extent of services provided by DIMA historically have been and continue to be satisfactory.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses, and total expense ratios, and comparative information provided by Lipper and the independent fee consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses (excluding 12b-1 fees) were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA and certain of its affiliates for comparable mutual funds and considered differences in fund and fee structures between the DWS Funds. 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.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Investments 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 the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed 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 Investments 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.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DWS Investments products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of 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.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and 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 Agreement.

DWS International VIP

The Board of Trustees, including the Independent Trustees, approved the renewal of your Fund's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2008.

In terms of the process that the Board followed prior to approving the Agreement, 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. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by the Fund's independent fee consultant. The Board also received extensive information throughout the year regarding performance of the Fund.
- The Trustees regularly meet privately with their independent counsel (and, as needed, other advisors) to discuss contract review and other matters. In addition, the Trustees were also advised by the Fund's independent fee consultant in the course of their review of the Fund's contractual arrangements and

considered a comprehensive report prepared by the independent fee consultant in connection with their deliberations (the "IFC Report").

- In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Independent Trustees as a group. The Independent Trustees reviewed the Contract Committee's findings and recommendations and presented their recommendations to the full Board.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders at a special meeting held in 2006. DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Board believes 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.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the independent fee consultant using information supplied by Lipper Inc. ("Lipper"). 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 DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 2nd quartile, 1st quartile and 3rd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods ended December 31, 2007 and has underperformed its benchmark in the five-year period ended December 31, 2007. 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.

On the basis of this evaluation and the ongoing review of investment results by the Board, the Board concluded that the nature, quality and extent of services provided by DIMA historically have been and continue to be satisfactory.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses, and total expense ratios, and comparative information provided by Lipper and the independent fee consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses (excluding 12b-1 fees) were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA and certain of its affiliates for comparable mutual funds and considered differences in fund and fee structures between the DWS Funds. 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.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Investments 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 the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed 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 Investments 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.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DWS Investments products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of 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.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and 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 Agreement.

DWS Health Care VIP

The Board of Trustees, including the Independent Trustees, approved the renewal of your Fund's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2008.

In terms of the process that the Board followed prior to approving the Agreement, 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. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by the Fund's independent fee consultant. The Board also received extensive information throughout the year regarding performance of the Fund.
- The Trustees regularly meet privately with their independent counsel (and, as needed, other advisors) to discuss contract review and other matters. In addition, the Trustees were also advised by the Fund's independent fee consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the independent fee consultant in connection with their deliberations (the "IFC Report").
- In connection with reviewing the Agreement, the Board also reviewed the terms of the Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Independent Trustees as a group. The Independent Trustees reviewed the Contract Committee's findings and recommendations and presented their recommendations to the full Board.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders at a special meeting held in 2006. DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Board believes 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.

While shareholders may focus primarily on fund performance and fees, the Fund's Board considers these and many other factors, including the quality and integrity of DIMA's personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the independent fee consultant using information supplied by Lipper Inc. ("Lipper"). 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 DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 2nd quartile, 3rd quartile and 3rd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-, three- and five-year periods ended December 31, 2007. 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.

On the basis of this evaluation and the ongoing review of investment results by the Board, the Board concluded that the nature, quality and extent of services provided by DIMA historically have been and continue to be satisfactory.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses, and total expense ratios, and comparative information provided by Lipper and the independent fee consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses (excluding 12b-1 fees) were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DIMA and certain of its affiliates for comparable mutual funds and considered differences in fund and fee structures between the DWS Funds. 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 limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing the Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Investments 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 the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board also reviewed 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 Investments 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.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's management fee schedule includes fee breakpoints. The Board concluded that the Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also

considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to DWS Funds advertising and cross-selling opportunities among DWS Investments products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of 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.

Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the continuation of the Agreement is in the best interests of the Fund. In making this determination the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and 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 Agreement.

Summary of Management Fee Evaluation by Independent Fee Consultant

October 24, 2008

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 Funds (formerly 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 2008, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007.

Qualifications

For more than 35 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 ten 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 Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 129 Fund portfolios in the DWS 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 Fund. These similar products included the other DWS 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 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 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 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 Funds are reasonable.

Thomas H. Mack

Thomas H. Mack

Summary of Administrative Fee Evaluation by Independent Fee Consultant

September 29, 2008

Pursuant to an Order entered into by Deutsche Asset Management (DeAM) with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds and have as part of my duties evaluated the reasonableness of the proposed management fees to be charged by DeAM to the DWS Funds, taking onto account a proposal to pass through to the funds certain fund accounting-related charges in connection with new regulatory requirements. My evaluation considered the following:

- While the proposal would alter the services to be provided under the Administration Agreement, which I consider to be part of fund management under the Order, it is my opinion that the change in services is slight and that the scope of prospective services under the combination of the Advisory and Administration Agreements continues to be comparable with those typically provided to competitive funds under their management agreements.
- While the proposal would increase fund expenses, according to a pro forma analysis performed by management, the prospective effect is less than .01% for all but seven of the DeAM Funds' 438 active share classes, and in all cases the effect is less than .03% and overall expenses would remain reasonable in my opinion.

Based on the foregoing considerations, in my opinion the fees and expenses for all of the DWS Funds will remain reasonable if the Directors adopt this proposal.

Thomas H. Mack

Thomas H. Mack

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the Trust as of December 31, 2008. 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. Except as otherwise noted below, 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. The Length of Time Served represents the year in which the Board Member joined the board of one or more DWS funds now overseen by the Board.

Independent Board Members

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in DWS Fund Complex Overseen
Paul K. Freeman (1950) Chairperson since 2009[2] Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Governing Council of the Independent Directors Council (governance, executive committees); formerly, Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	134
Dawn-Marie Driscoll (1946) Board Member since 1987	President, Driscoll Associates (consulting firm); Executive Fellow, Center for Business Ethics, Bentley University; formerly, Partner, Palmer & Dodge (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (1978–1988). Directorships: Trustee of 20 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 University; Trustee, Southwest Florida Community Foundation (charitable organization). Former Directorships: Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	134
John W. Ballantine (1946) Board Member since 1999	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	134
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (media company); Boston Museum of Science; Public Radio International; PRX, The Public Radio Exchange; The PBS Foundation. Former Directorships: American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	134
Keith R. Fox (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds). Directorships: Progressive Holding Corporation (kitchen goods importer and distributor); Box Top Media Inc. (advertising); The Kennel Shop (retailer)	134
Kenneth C. Froewiss (1945) Board Member since 2001	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)	134
Richard J. Herring (1946) Board Member since 1990	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)	134
William McClayton (1944) Board Member since 2004	Managing Director, Diamond Management & Technology Consultants, Inc. (global management consulting firm) (2001–present); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	134
Rebecca W. Rimel (1951) Board Member since 1995	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 (2001–2007); Trustee, Pro Publica (2007–present) (charitable organization). 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[3] (January 2007–June 2007)	134

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in DWS Fund Complex Overseen
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; Trustee of 20 open-end mutual funds managed by Sun Capital Advisers, Inc. (since October 1998). Formerly, Pension & Savings Trust Officer, Sprint Corporation[3] (telecommunications) (November 1989–September 2003)	134
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; Business Leadership Council, Wellesley College. Former Directorships: Service Source, Inc., Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	134
Robert H. Wadsworth (1940) Board Member since 1999	President, Robert H. Wadsworth & Associates, Inc. (consulting firm) (1983 to present); Director, The Phoenix Boys Choir Association	137

Interested Board Member

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Axel Schwarzer[4] (1958) Board Member since 2006	Managing Director[5], Deutsche Asset Management; Head of Deutsche Asset Management Americas; CEO of DWS Investments; 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)	134

Officers[6]

Name, Year of Birth, Position with the Fund and Length of Time Served[7]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Michael G. Clark[8] (1965) President, 2006–present	Managing Director[5], 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[9] (1962) Vice President and Secretary, 1999–present	Director[5], Deutsche Asset Management
Paul H. Schubert[8] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[5], 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)
Caroline Pearson[9] (1962) Assistant Secretary, 1997–present	Managing Director[5], Deutsche Asset Management
Rita Rubin[10] (1970) Assistant Secretary, 2009–present	Vice President and Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007); Attorney, Shearman & Sterling LLP (2004); Vice President and Associate General Counsel, UBS Global Asset Management (2001–2004)
Paul Antosca[9] (1957) Assistant Treasurer, 2007–present	Director[5], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[9] (1967) Assistant Treasurer, 2007–present	Director[5], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[9] (1966) Assistant Treasurer, 2007–present	Director[5], Deutsche Asset Management
Jason Vazquez[10] (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[10] (1962) Chief Compliance Officer, 2006–present	Managing Director[5], 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)

Name, Year of Birth, Position with the Fund and Length of Time Served[7]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
J. Christopher Jackson[10] (1951) Chief Legal Officer, 2006–present	Director[5], 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 *The length of time served represents the year in which the Board Member joined the board of one or more DWS funds currently overseen by the Board.*

2 *Mr. Freeman assumed the Chairperson role as of January 1, 2009. Prior to that Ms. Driscoll served as Chairperson of certain DWS funds since 2004.*

3 *A publicly held company with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.*

4 *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. As an interested person, Mr. Schwarzer receives no compensation from the fund.*

5 *Executive title, not a board directorship.*

6 *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.*

7 *The length of time served represents the year in which the officer was first elected in such capacity for one or more DWS funds.*

8 *Address: 345 Park Avenue, New York, New York 10154.*

9 *Address: One Beacon Street, Boston, MA 02108.*

10 *Address: 280 Park Avenue, New York, New York 10017.*

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 Investments is part of Deutsche Bank's Asset Management division and, within the US, represents the retail 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 Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 778-1482

VS1-2 (R-9041-1 2/09)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2008

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

RESHAPING INVESTING.

DWS INVESTMENTS
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 Investments is part of Deutsche Bank's Asset Management division and, within the US, represents the retail asset management activities of Deutsche Bank AG, Deutsche Bank Trust Company Americas, Deutsche Investment Management Americas Inc. and DWS Trust Company.

Performance Summary

December 31, 2008

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.

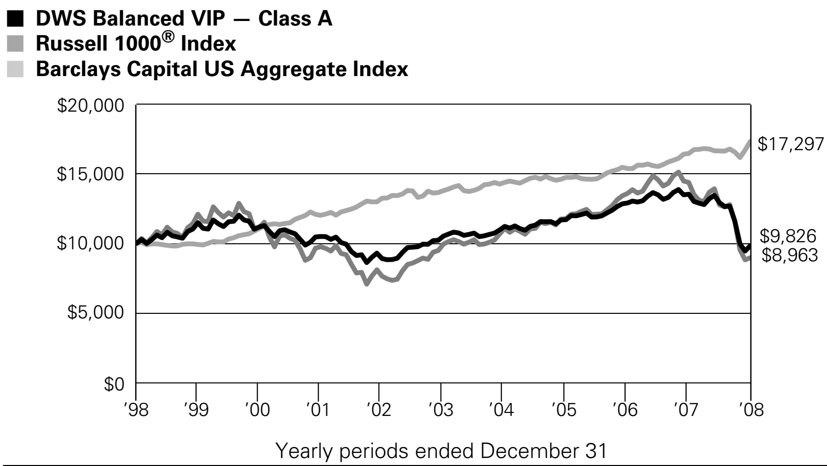
The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.52% and 0.77% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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. The Portfolio invests in derivatives seeking to hedge positions in certain securities and to generate income in order to enhance the Portfolio's returns. Derivatives can be more volatile and less liquid than traditional fixed-income securities. 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 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 Barclays Capital US Aggregate Index (name changed from Lehman Brothers US Aggregate Index, effective November 3, 2008) 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	$7,267	$8,399	$9,342	$9,826
	Average annual total return	–27.33%	–5.65%	–1.35%	–.18%
Russell 1000 Index	Growth of $10,000	$6,240	$7,621	$9,022	$8,963
	Average annual total return	–37.60%	–8.66%	–2.04%	–1.09%
Barclays Capital US Aggregate Index	Growth of $10,000	$10,524	$11,745	$12,552	$17,297
	Average annual total return	5.24%	5.51%	4.65%	5.63%

The growth of $10,000 is cumulative.

DWS Balanced VIP		**1-Year**	**3-Year**	**5-Year**	**Life of Class***
Class B	Growth of $10,000	$7,235	$8,298	$9,162	$10,326
	Average annual total return	–27.65%	–6.03%	–1.74%	.49%
Russell 1000 Index	Growth of $10,000	$6,240	$7,621	$9,022	$10,532
	Average annual total return	–37.60%	–8.66%	–2.04%	.80%
Barclays Capital US Aggregate Index	Growth of $10,000	$10,524	$11,745	$12,552	$13,881
	Average annual total return	5.24%	5.51%	4.65%	5.17%

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 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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 760.70	$ 756.40
Expenses Paid per $1,000*	$ 2.88	$ 3.66
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,021.87	$1,020.96
Expenses Paid per $1,000*	$ 3.30	$ 4.22

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Balanced VIP	.65%	.83%

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

For the 12 months ended December 31, 2008, the DWS Balanced VIP had a return of –27.33% (Class A shares, unadjusted for contract charges.) The Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, had a negative return of –37.31% for the year. The Barclays Capital US Aggregate Index, the Portfolio's bond benchmark, which is considered indicative of broad bond market trends, returned 5.24% for the year. The Russell 1000® Index, the Portfolio's equity benchmark, returned –37.60%.

In December of 2007, the managers transitioned the Portfolio to a new strategic asset allocation, expanded the global tactical asset allocation overlay strategy, which the Advisor calls iGAP (integrated Global Alpha Platform), to 100% of the Portfolio's assets and increased diversification by adding more managers and investment styles. The full transition was completed in the beginning of April of 2008. The Portfolio's underperformance during 2008 was due to the underperformance of the underlying strategies, in particular the core fixed income strategy and the iGap strategy.

During 2008, in the large-cap US equity portion of the Portfolio, the quantitative strategy underperformed. Within the international portion of the Portfolio, the quantitative strategy outperformed. During this extremely volatile period, broad diversification in terms of asset classes as well as investment styles within asset classes has been more important than ever.

William Chepolis, CFA	Matthew F. MacDonald, CFA	Inna Okounkova	Gary Sullivan, CFA
Robert Wang	Thomas Picciochi	James B. Francis, CFA[3]	Julie Abbett
Thomas Schuessler, PhD	John Brennan	J. Richard Robben, CFA	
Joseph Axtell, CFA[1]	Owen Fitzpatrick, CFA[2]	Richard Shepley[4]	

Portfolio Managers, Deutsche Investment Management Americas Inc.

Michael Sieghart, CFA[5]
Consultant, Deutsche Investment Management Americas Inc.

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. 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 Barclays Capital US Aggregate Index (name changed from Lehman Brothers US Aggregate Index, effective November 3, 2008) is an unmanaged, market value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities. Index returns, unlike fund returns, do not include fees or expenses. It is not possible to invest directly into an index.

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.

1 *Mr. Axtell joined the Portfolio on August 19, 2008.*
2 *Mr. Fitzpatrick joined the Portfolio on February 15, 2009.*
3 *Mr. Francis joined the Portfolio on July 1, 2008.*
4 *Mr. Shepley joined the Portfolio on January 9, 2009.*
5 *Mr. Sieghart became consultant to the Advisor on August 19, 2008.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Balanced VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	59%	59%
Corporate Bonds	12%	7%
Mortgage-Backed Securities Pass-Throughs	9%	1%
Government & Agency Obligations	6%	5%
Cash Equivalents	5%	5%
Commercial and Non-Agency Mortgage-Backed Securities	5%	16%
Collateralized Mortgage Obligations	3%	3%
Asset Backed	1%	3%
Loan Participations and Assignments	—	1%
	100%	100%

Sector Diversification (Excludes Cash Equivalents and Securities Lending)	**12/31/08**	**12/31/07**
Financials	18%	18%
Health Care	14%	12%
Information Technology	12%	12%
Consumer Staples	11%	8%
Energy	11%	12%
Industrials	10%	12%
Consumer Discretionary	7%	11%
Utilities	6%	4%
Telecommunication Services	6%	6%
Materials	5%	5%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 7. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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, 2008

DWS Balanced VIP

	Shares	Value ($)
Common Stocks 58.9%		
Consumer Discretionary 4.2%		
Auto Components 0.1%		
Aisin Seiki Co., Ltd.	100	1,419
Autoliv, Inc.	2,400	51,504
Bridgestone Corp.	300	4,506
Compagnie Generale des Etablissements Michelin "B"	105	5,506
Denso Corp.	200	3,327
Fuel Systems Solutions, Inc.*	500	16,380
GKN PLC	897	1,270
Magna International, Inc. "A"	400	11,908
Rieter Holding AG (Registered)	16	2,587
Toyota Industries Corp.	100	2,142
WABCO Holdings, Inc.	11,300	178,427
		278,976
Automobiles 0.1%		
Bayerische Motoren Werke (BMW) AG	257	7,900
Daimler AG (Registered)	552	20,974
Fiat SpA	5,500	35,860
Honda Motor Co., Ltd.	700	15,181
Isuzu Motors Ltd.	1,000	1,283
Mazda Motor Corp.	1,000	1,690
Mitsubishi Motors Corp.*	2,000	2,745
Nissan Motor Co., Ltd.	900	3,260
PSA Peugeot Citroen	112	1,910
Renault SA	129	3,365
Suzuki Motor Corp.	200	2,765
Toyota Motor Corp.	1,300	42,553
Volkswagen AG	93	32,579
		172,065
Distributors 0.2%		
Genuine Parts Co.	13,625	515,842
Li & Fung Ltd.	18,000	31,056
		546,898
Diversified Consumer Services 0.0%		
Brink's Home Security Holdings, Inc.*	3,700	**81,104**
Hotels Restaurants & Leisure 1.1%		
Accor SA	151	7,431
Brinker International, Inc.	7,500	79,050
Buffalo Wild Wings, Inc.*	6,100	156,465
California Pizza Kitchen, Inc.*	1,800	19,296
Carnival Corp. (Unit)	15,059	366,235
Carnival PLC	148	3,224
CEC Entertainment, Inc.*	3,100	75,175
CKE Restaurants, Inc.	1,700	14,756
Compass Group PLC	2,000	9,925
Cracker Barrel Old Country Store, Inc.	1,800	37,062
Crown Ltd.	8,273	34,633
InterContinental Hotel Group PLC	251	2,042
Ladbrokes PLC	788	2,107
Lottomatica SpA	498	12,296
McDonald's Corp.	32,200	2,002,518
P.F. Chang's China Bistro, Inc.*	6,300	131,922
Panera Bread Co. "A"*	3,700	193,288
Shangri-La Asia Ltd.	12,000	13,870
Sodexo	85	4,704
TABCORP Holding Ltd.	6,752	33,051
Tatts Group Ltd.	14,815	28,942
TUI AG	155	1,768
Whitbread PLC	229	3,029
WMS Industries, Inc.*	5,900	158,710
		3,391,499
Household Durables 0.1%		
Blyth, Inc.	2,600	20,384
Centex Corp.	8,600	91,504
CSS Industries, Inc.	1,100	19,514
Electrolux AB "B"	800	6,881
Husqvarna AB "B"	900	4,769
M/I Homes, Inc.	3,500	36,890
NVR, Inc.*	200	91,250
Panasonic Corp.	1,000	12,530
Ryland Group, Inc.	3,400	60,078
Sony Corp.	400	8,695
Taylor Wimpey PLC	1,128	221
Tupperware Brands Corp.	5,500	124,850
		477,566
Internet & Catalog Retail 0.0%		
Amazon.com, Inc.*	2,000	102,560
Home Retail Group PLC	703	2,156
Stamps.com, Inc.*	1,000	9,830
		114,546
Leisure Equipment & Products 0.1%		
Hasbro, Inc.	6,200	180,854
Polaris Industries, Inc.	1,700	48,705
		229,559
Media 0.9%		
British Sky Broadcasting Group PLC	1,232	8,572
Comcast Corp. "A"	70,200	1,184,976
DISH Network Corp. "A"*	10,900	120,881
Fairfax Media Ltd.	13,871	15,915
Gestevision Telecinco SA	345	3,676
Global Sources Ltd.*	5,361	29,217
Interpublic Group of Companies, Inc.*	20,400	80,784
ITV PLC	3,194	1,831
Lagardere SCA	107	4,343
Liberty Media Corp. — Entertainment "A"*	13,500	235,980
Marvel Entertainment, Inc.*	5,900	181,425
Mediaset SpA	5,320	30,381
Modern Times Group MTG AB "B"	175	3,801
Morningstar, Inc.*	3,100	110,050
Pearson PLC	1,119	10,385
Publicis Groupe	132	3,398
Reed Elsevier NV	3,828	45,102
Reed Elsevier PLC	1,779	12,967
SES "A" (FDR)	184	3,542
Shaw Communications, Inc. "B"	1,600	28,008
Singapore Press Holdings Ltd.	78,000	168,896
Thomson Reuters Corp.	1,800	51,908

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

	Shares	Value ($)
Thomson Reuters PLC	285	6,303
Time Warner, Inc.	12,300	123,738
United Business Media Ltd.	388	2,856
Vertis Holdings, Inc.*	1,645	0
Vivendi	790	25,721
Walt Disney Co.	7,200	163,368
Wolters Kluwer NV	1,709	32,276
WPP PLC	1,683	9,811
Yellow Pages Income Fund (Unit)	400	2,187
		2,702,298
Multiline Retail 0.3%		
Big Lots, Inc.*	7,500	108,675
Canadian Tire Corp., Ltd. "A"	300	10,559
Family Dollar Stores, Inc.	8,300	216,381
Kohl's Corp.*	13,680	495,216
Marks & Spencer Group PLC	1,148	3,573
Next PLC	169	2,646
PPR	57	3,723
Sears Holdings Corp.*	1,900	73,853
		914,626
Specialty Retail 1.0%		
AutoNation, Inc.*	4,900	48,412
Best Buy Co., Inc.	3,800	106,818
Children's Place Retail Stores, Inc.*	6,400	138,752
Coldwater Creek, Inc.*	24,500	69,825
Esprit Holdings Ltd.	8,400	47,880
Foot Locker, Inc.	13,900	102,026
GameStop Corp. "A"*	11,000	238,260
Hennes & Mauritz AB "B"	1,525	59,591
Hot Topic, Inc.*	13,200	122,364
Industria de Diseno Textil SA	2,432	107,498
Jo-Ann Stores, Inc.*	1,400	21,686
Jos. A. Bank Clothiers, Inc.*	3,300	86,295
Kingfisher PLC	1,961	3,835
Lowe's Companies, Inc.	18,174	391,105
RadioShack Corp.	22,100	263,874
Rent-A-Center, Inc.*	8,100	142,965
Staples, Inc.	22,710	406,963
The Buckle, Inc.	4,800	104,736
The Gap, Inc.	15,500	207,545
Tiffany & Co.	7,400	174,862
Tractor Supply Co.*	4,900	177,086
Yamada Denki Co., Ltd.	50	3,471
		3,025,849
Textiles, Apparel & Luxury Goods 0.3%		
Adidas AG	129	4,961
Billabong International Ltd.	204	1,141
Burberry Group PLC	424	1,360
Carter's, Inc.*	7,400	142,524
Christian Dior SA	123	6,938
Compagnie Financiere Richemont SA "A"	3,079	59,777
Fuqi International, Inc.*	2,400	15,024
Gildan Activewear, Inc.*	300	3,448
Hermes International	54	7,543
Luxottica Group SpA	492	8,795
LVMH Moet Hennessy Louis Vuitton SA	165	11,086
NIKE, Inc. "B"	6,400	326,400
Phillips-Van Heusen Corp.	4,600	92,598
Swatch Group AG (Bearer)	192	26,820
Swatch Group AG (Registered)	356	9,732
The Warnaco Group, Inc.*	1,600	31,408
Timberland Co. "A"*	3,200	36,960
True Religion Apparel, Inc.*	4,800	59,712
UniFirst Corp.	1,500	44,535
		890,762

Consumer Staples 6.5%

	Shares	Value ($)
Beverages 1.1%		
Anheuser-Busch InBev NV	1,563	36,237
Asahi Breweries Ltd.	500	8,605
Boston Beer Co., Inc. "A"*	900	25,560
Carlsberg AS "B"	7,326	240,520
Coca-Cola Amatil Ltd.	614	3,968
Coca-Cola Enterprises, Inc.	8,700	104,661
Diageo PLC	28,863	398,975
Foster's Group Ltd.	4,320	16,620
Heineken NV	407	12,505
Kirin Holdings Co., Ltd.	1,000	13,182
Pepsi Bottling Group, Inc.	19,800	445,698
PepsiCo, Inc.	33,416	1,830,194
Pernod Ricard SA	266	19,725
SABMiller PLC	698	11,752
The Coca-Cola Co.	1,600	72,432
		3,240,634
Food & Staples Retailing 1.8%		
AEON Co., Ltd.	1,200	12,019
BJ's Wholesale Club, Inc.*	5,000	171,300
Carrefour SA	847	32,527
Casino Guichard-Perrachon SA	82	6,235
Colruyt SA	81	17,347
CVS Caremark Corp.	20,512	589,515
Delhaize Group	449	27,705
George Weston Ltd.	300	14,569
J Sainsbury PLC	1,318	6,267
Kesko Oyj "B"	133	3,333
Koninklijke Ahold NV	2,426	29,817
Kroger Co.	26,200	691,942
Lawson, Inc.	100	5,767
Loblaw Companies Ltd.	600	16,996
Metro AG	770	31,211
Metro, Inc. "A"	500	14,986
Nash Finch Co.	400	17,956
Seven & I Holdings Co., Ltd.	8,200	280,930
Shoppers Drug Mart Corp.	7,000	272,459
Sysco Corp.	23,800	545,972
Tesco PLC	5,893	30,702
Wal-Mart Stores, Inc.	39,500	2,214,370
Walgreen Co.	19,910	491,180
Wesfarmers Ltd.	1,325	16,732
Wesfarmers Ltd. (PPS)	167	2,110
William Morrison Supermarkets PLC	1,655	6,712
Woolworths Ltd.	2,545	47,484
		5,598,143
Food Products 1.6%		
Ajinomoto Co., Inc.	1,000	10,894
Archer-Daniels-Midland Co.	15,300	441,099
Aryzta AG*	77	2,466
Bunge Ltd.	11,700	605,709
Cadbury PLC	1,029	9,008
Danisco AS	796	32,443
Darling International, Inc.*	18,700	102,663
Dean Foods Co.*	10,160	182,575

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

	Shares	Value ($)
Diamond Foods, Inc.	2,000	40,300
Fresh Del Monte Produce, Inc.*	4,300	96,406
General Mills, Inc.	14,250	865,687
Groupe DANONE	6,347	381,169
H.J. Heinz Co.	4,700	176,720
Kellogg Co.	8,810	386,318
Kerry Group PLC "A"	3,686	68,163
Kraft Foods, Inc. "A"	20,797	558,399
Nestle SA (Registered)	17,009	670,368
Nissin Foods Holdings Co., Ltd.	100	3,507
Parmalat SpA	2,981	4,886
Ralcorp Holdings, Inc.*	3,300	192,720
Saputo, Inc.	1,000	17,959
Tate & Lyle PLC	461	2,678
Unilever NV (CVA)	3,038	73,611
Unilever PLC	966	21,953
Wilmar International Ltd.	1,000	1,958
Yakult Honsha Co., Ltd.	200	4,277
		4,953,936
Household Products 1.0%		
Central Garden & Pet Co. "A"*	1,400	8,260
Colgate-Palmolive Co.	17,370	1,190,540
Henkel AG & Co. KGaA	557	14,769
Kao Corp.	1,000	30,283
Procter & Gamble Co.	28,090	1,736,524
Reckitt Benckiser Group PLC	343	12,778
Unicharm Corp.	100	7,558
		3,000,712
Personal Products 0.1%		
Beiersdorf AG	570	33,910
Herbalife Ltd.	11,500	249,320
L'Oreal SA	362	31,456
Nu Skin Enterprises, Inc. "A"	2,300	23,989
Shiseido Co., Ltd.	1,000	20,471
		359,146
Tobacco 0.9%		
Altria Group, Inc.	54,553	821,568
British American Tobacco PLC	1,617	42,015
Imperial Tobacco Group PLC	10,530	281,289
Japan Tobacco, Inc.	106	351,009
Philip Morris International, Inc.	30,410	1,323,139
Swedish Match AB	7,492	107,249
		2,926,269

Energy 7.0%

	Shares	Value ($)
Energy Equipment & Services 1.1%		
Aker Solutions ASA	700	4,627
AMEC PLC	16,366	116,813
Compagnie Generale de Geophysique-Veritas*	89	1,329
Complete Production Services, Inc.*	5,600	45,640
ENSCO International, Inc.	12,278	348,572
Fugro NV (CVA)	1,159	33,274
Halliburton Co.	41,382	752,325
ION Geophysical Corp.*	37,000	126,910
National-Oilwell Varco, Inc.*	10,273	251,072
Noble Corp.	8,260	182,463
Oil States International, Inc.*	10,400	194,376
ProSafe SE*	300	1,144
RPC, Inc.	14,200	138,592
Saipem SpA	7,731	129,814
SBM Offshore NV	2,753	36,076
Schlumberger Ltd.	6,860	290,384
Seadrill Ltd.	800	6,521
Technip SA	75	2,298
Tenaris SA	434	4,488
Transocean Ltd.*	16,014	756,661
WorleyParsons Ltd.	564	5,619
		3,428,998
Oil, Gas & Consumable Fuels 5.9%		
Alpha Natural Resources, Inc.*	5,600	90,664
Anadarko Petroleum Corp.	3,300	127,215
Apache Corp.	8,100	603,693
BG Group PLC	17,616	244,576
Bill Barrett Corp.*	3,400	71,842
BP PLC	5,158	39,522
Callon Petroleum Co.*	6,900	17,940
Cameco Corp.	100	1,705
Canadian Natural Resources Ltd.	200	7,898
Canadian Oil Sands Trust (Unit)	100	1,709
Chevron Corp.	22,492	1,663,733
Cimarex Energy Co.	11,300	302,614
Clayton Williams Energy, Inc.*	3,900	177,216
ConocoPhillips	25,281	1,309,556
Devon Energy Corp.	16,263	1,068,642
El Paso Corp.	14,300	111,969
Enbridge, Inc.	100	3,205
EnCana Corp.	300	13,842
Encore Acquisition Co.*	22,200	566,544
Eni SpA	2,945	69,784
EOG Resources, Inc.	10,320	687,106
ExxonMobil Corp.	42,604	3,401,077
Frontline Ltd.	200	5,833
Gazprom (ADR)*	11,850	169,846
Hess Corp.	6,100	327,204
Husky Energy, Inc.	100	2,501
Imperial Oil Ltd.	300	9,961
INPEX Corp.	4	31,602
James River Coal Co.*	10,300	157,899
Knightsbridge Tankers Ltd.	1,500	21,975
Marathon Oil Corp.	28,692	785,013
Mariner Energy, Inc.*	22,900	233,580
Massey Energy Co.	11,900	164,101
Murphy Oil Corp.	5,800	257,230
Neste Oil Oyj	113	1,688
Nexen, Inc.	19,184	333,331
Nippon Mining Holdings, Inc.	3,500	15,039
Nippon Oil Corp.	5,000	25,182
Noble Energy, Inc.	11,112	546,933
Occidental Petroleum Corp.	12,601	755,934
OMV AG	2,811	74,938
Origin Energy Ltd.	2,654	29,936
Petro-Canada	200	4,329
Petroleo Brasileiro SA (ADR)	7,300	178,777
PetroQuest Energy, Inc.*	8,000	54,080
Repsol YPF SA	7,373	157,034
Rosetta Resources, Inc.*	600	4,248
Royal Dutch Shell PLC "A"	756	19,762
Royal Dutch Shell PLC "B"	877	22,072
Santos Ltd.	1,792	18,728
Showa Shell Sekiyu KK	1,100	10,853
StatoilHydro ASA	20,850	343,405
Suncor Energy, Inc.	19,485	374,390
Sunoco, Inc.	17,900	777,934

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

	Shares	Value ($)
Swift Energy Co.*	2,200	36,982
Talisman Energy, Inc.	500	4,933
TonenGeneral Sekiyu KK	1,000	10,010
Total SA	10,408	567,420
VAALCO Energy, Inc.*	10,800	80,352
Whiting Petroleum Corp.*	6,100	204,106
Woodside Petroleum Ltd.	1,342	34,633
World Fuel Services Corp.	4,600	170,200
XTO Energy, Inc.	14,920	526,228
		18,132,254

Financials 7.7%

Capital Markets 1.1%

	Shares	Value ($)
Affiliated Managers Group, Inc.*	2,703	113,310
Ameriprise Financial, Inc.	3,400	79,424
Bank of New York Mellon Corp.	20,800	589,264
BGC Partners, Inc. "A"	2,200	6,072
Charles Schwab Corp.	33,800	546,546
Credit Suisse Group AG (Registered)	825	22,613
Daiwa Securities Group, Inc.	1,000	5,959
Eaton Vance Corp.	6,190	130,052
IGM Financial, Inc.	100	2,872
Jefferies Group, Inc.	9,522	133,879
Julius Baer Holding AG (Registered)	259	9,963
LaBranche & Co., Inc.*	2,900	13,891
Macquarie Group Ltd.	396	8,049
Man Group PLC	485	1,674
Mediobanca SpA	349	3,544
Nomura Holdings, Inc.	900	7,422
Prospect Capital Corp.	12,669	151,648
Reinet Investments SCA*	213	2,074
State Street Corp.	9,940	390,940
SWS Group, Inc.	1,800	34,110
T. Rowe Price Group, Inc.	8,700	308,328
TD Ameritrade Holding Corp.*	17,368	247,494
The Goldman Sachs Group, Inc.	4,200	354,438
thinkorswim Group, Inc.*	7,400	41,588
UBS AG (Registered)*	2,308	33,475
		3,238,629

Commercial Banks 2.2%

	Shares	Value ($)
1st Source Corp.	1,200	28,356
Allied Irish Banks PLC	15,183	36,983
Anglo Irish Bank Corp. PLC	14,896	3,577
Australia & New Zealand Banking Group Ltd.	888	9,531
Banca Monte dei Paschi di Siena SpA	915	1,972
Banca Popolare di Milano Scarl	2,224	13,172
Banco Bilbao Vizcaya Argentaria SA	2,168	26,603
Banco Comercial Portugues SA (Registered)*	86,212	98,815
Banco Espirito Santo SA (Registered)	8,338	78,376
Banco Latinoamericano de Exportaciones SA "E"	8,400	120,624
Banco Popolare Societa Cooperativa	1,432	10,032
Banco Popular Espanol SA	560	4,862
Banco Santander SA	4,119	39,753
Bank of East Asia Ltd.	1,800	3,797
Bank of Montreal	300	7,594
Bank of Nova Scotia	500	13,491
Barclays PLC	1,486	3,350
BNP Paribas	5,692	240,353
BOC Hong Kong (Holdings) Ltd.	4,500	5,137
Canadian Imperial Bank of Commerce	9,242	382,482
Chuo Mitsui Trust Holdings, Inc.	1,000	4,887
Commerzbank AG	1,202	11,458
Commonwealth Bank of Australia	608	12,327
Community Bank System, Inc.	2,800	68,292
Credit Agricole SA	364	4,140
Danske Bank AS	3,201	32,366
DBS Group Holdings Ltd.	3,000	17,797
Deutsche Postbank AG	64	1,415
Dexia SA	2,958	13,314
DnB NOR ASA	44,200	176,562
Erste Group Bank AG	4,350	101,975
First Financial Bankshares, Inc.	1,300	71,773
First Merchants Corp.	1,000	22,210
FirstMerit Corp.	6,600	135,894
FNB Corp.	3,400	44,880
Governor and Co. of the Bank of Ireland	18,141	21,375
Hang Seng Bank Ltd.	1,100	14,528
HBOS PLC	2,928	2,972
HSBC Holdings PLC	16,707	159,907
Hypo Real Estate Holding AG	816	3,590
International Bancshares Corp.	2,700	58,941
Intesa Sanpaolo	82,053	295,549
Intesa Sanpaolo (RSP)	412	1,055
Jyske Bank AS (Registered)*	375	8,833
KBC Groep NV	895	27,033
Lakeland Bancorp., Inc.	1,400	15,764
Lloyds TSB Group PLC	1,300	2,379
Mitsubishi UFJ Financial Group, Inc.	41,900	259,986
Mizuho Financial Group, Inc.	6,000	17,719
National Australia Bank Ltd.	790	11,582
National Bank of Canada	100	2,536
National Penn Bancshares, Inc.	10,700	155,257
NBT Bancorp., Inc.	4,700	131,412
Nordea Bank AB	3,800	26,749
Oriental Financial Group, Inc.	1,000	6,050
Oversea-Chinese Banking Corp., Ltd.	7,000	24,389
PNC Financial Services Group, Inc.	12,164	596,036
PrivateBancorp., Inc.	4,600	149,316
Raiffeisen International Bank-Holding AG	1,134	31,737
Republic Bancorp., Inc. "A"	700	19,040
Resona Holdings, Inc.	300	4,719
Royal Bank of Canada	700	20,470
Royal Bank of Scotland Group PLC	7,868	5,688
S&T Bancorp., Inc.	3,400	120,700
Santander BanCorp.	5,000	62,450
Skandinaviska Enskilda Banken AB "A"	900	7,230
Societe Generale	5,903	298,972
Southside Bancshares, Inc.	1,900	44,650
Standard Chartered PLC	682	8,718
Sumitomo Mitsui Financial Group, Inc.	300	13,078
Sumitomo Trust & Banking Co., Ltd.	1,000	5,918
Susquehanna Bancshares, Inc.	1,000	15,910

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

	Shares	Value ($)
SVB Financial Group*	1,700	44,591
Svenska Handelsbanken AB "A"	1,150	18,718
Swedbank AB "A"	1,596	9,154
Sydbank AS	400	4,956
Synovus Financial Corp.	13,681	113,552
The Bank of Yokohama Ltd.	1,000	5,915
Tompkins Financial Corp.	1,600	92,720
Toronto-Dominion Bank	200	7,039
UMB Financial Corp.	2,900	142,506
UniCredit SpA	8,775	21,846
Unione di Banche Italiane ScpA	685	9,914
United Bankshares, Inc.	2,400	79,728
United Overseas Bank Ltd.	22,000	198,595
US Bancorp.	17,500	437,675
Wells Fargo & Co.	38,438	1,133,152
Westpac Banking Corp.	1,387	16,517
		6,836,966
Consumer Finance 0.1%		
Capital One Financial Corp.	4,498	143,441
Cash America International, Inc.	3,300	90,255
Credit Saison Co., Ltd.	200	2,761
ORIX Corp.	50	2,841
		239,298
Diversified Financial Services 1.2%		
ASX Ltd.	282	6,585
Bank of America Corp.	39,252	552,668
CME Group, Inc.	1,155	240,367
Compagnie Nationale a Portefeuille	369	17,943
Deutsche Boerse AG	4,725	344,133
Encore Capital Group, Inc.*	2,000	14,400
Fortis	13,670	18,143
Groupe Bruxelles Lambert SA	473	37,640
Hong Kong Exchanges & Clearing Ltd.	1,600	15,340
ING Groep NV (CVA)	5,402	56,468
Interactive Brokers Group, Inc. "A"*	1,100	19,679
Investor AB "B"	600	9,029
JPMorgan Chase & Co.	55,048	1,735,664
KBC Ancora	49	844
NYSE Euronext	11,488	314,541
Singapore Exchange Ltd.	1,000	3,583
The NASDAQ OMX Group, Inc.*	7,100	175,441
		3,562,468
Insurance 2.1%		
ACE Ltd.	8,791	465,220
Aegon NV	3,859	24,626
Aflac, Inc.	9,880	452,899
Alleanza Assicurazioni SpA	232	1,890
Alleghany Corp.*	575	162,150
Allianz SE (Registered)	3,244	347,945
Allied World Assurance Co. Holdings Ltd.	2,500	101,500
Allstate Corp.	18,700	612,612
American Physicians Capital, Inc.	600	28,860
AMP Ltd.	965	3,668
AmTrust Financial Services, Inc.	11,700	135,720
Aon Corp.	11,726	535,644
Argo Group International Holdings Ltd.*	4,500	152,640
Arthur J. Gallagher & Co.	8,353	216,426
Assicurazioni Generali SpA	1,167	31,992

	Shares	Value ($)
Assured Guaranty Ltd.	1,100	12,540
Aviva PLC	589	3,334
AXA Asia Pacific Holdings Ltd.	529	1,834
AXA SA	13,359	297,835
Baloise Holding AG (Registered)	92	6,915
Brown & Brown, Inc.	5,500	114,950
China Life Insurance Co., Ltd. "H"	110,500	340,515
CNP Assurances	24	1,737
Crawford & Co. "B"*	3,000	43,620
Enstar Group Ltd.*	600	35,484
First American Corp.	6,100	176,229
Great-West Lifeco, Inc.	100	1,677
Hallmark Financial Services, Inc.*	2,000	17,540
Hartford Financial Services Group, Inc.	9,515	156,236
Insurance Australia Group Ltd.	1,063	2,900
Irish Life & Permanent PLC	1,959	4,347
Legal & General Group PLC	2,181	2,433
Lincoln National Corp.	3,600	67,824
Manulife Financial Corp.	800	13,479
MetLife, Inc.	4,636	161,611
Mitsui Sumitomo Insurance Group Holdings, Inc.	300	9,568
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	2,369	372,281
Navigators Group, Inc.*	2,700	148,257
Odyssey Re Holdings Corp.	1,000	51,810
Old Mutual PLC	9,082	7,256
PartnerRe Ltd.	2,425	172,830
Power Corp. of Canada	200	3,632
Power Financial Corp.	100	1,936
Principal Financial Group, Inc.	5,200	117,364
Progressive Corp.	8,100	119,961
Prudential Financial, Inc.	5,578	168,790
Prudential PLC	566	3,446
QBE Insurance Group Ltd.	387	7,035
Reinsurance Group of America, Inc.	2,200	94,204
Sampo Oyj "A"	4,681	87,433
Sompo Japan Insurance, Inc.	1,000	7,323
State Auto Financial Corp.	2,200	66,132
Sun Life Financial, Inc.	300	6,911
Suncorp-Metway Ltd.	457	2,698
Swiss Life Holding (Registered)*	19	1,318
Swiss Re (Registered)	190	9,230
T&D Holdings, Inc.	100	4,193
Tokio Marine Holdings, Inc.	300	8,791
Topdanmark AS*	125	16,228
Trygvesta AS	245	15,201
Unum Group	10,600	197,160
Vienna Insurance Group	895	30,877
Zurich Financial Services AG (Registered)	118	25,615
		6,494,312
Real Estate Investment Trusts 0.6%		
Annaly Capital Management, Inc. (REIT)	4,200	66,654
Apartment Investment & Management Co. "A" (REIT)	2,002	23,123
AvalonBay Communities, Inc. (REIT)	1,100	66,638
BioMed Realty Trust, Inc. (REIT)	2,200	25,784
Boston Properties, Inc. (REIT)	1,900	104,500
CapitaMall Trust (REIT)	3,000	3,340
Corio NV (REIT)	72	3,301

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	Shares	Value ($)
Corporate Office Properties Trust (REIT)	2,500	76,750
Cousins Properties, Inc. (REIT)	3,100	42,935
Equity Lifestyle Properties, Inc. (REIT)	1,500	57,540
Equity Residential (REIT)	3,600	107,352
First Industrial Realty Trust, Inc. (REIT)	3,500	26,425
Franklin Street Properties Corp. (REIT)	1,300	19,175
Glimcher Realty Trust (REIT)	3,200	8,992
GPT Group (REIT)	1,538	995
HCP, Inc. (REIT)	1,800	49,986
Healthcare Realty Trust, Inc. (REIT)	2,200	51,656
Home Properties, Inc. (REIT)	2,000	81,200
Hospitality Properties Trust (REIT)	3,000	44,610
Host Hotels & Resorts, Inc. (REIT)	5,100	38,607
Kimco Realty Corp. (REIT)	3,400	62,152
LaSalle Hotel Properties (REIT)	4,800	53,040
Lexington Realty Trust (REIT)	5,300	26,500
Link (REIT)	2,500	4,156
Maguire Properties, Inc. (REIT)	2,400	3,504
Mid-America Apartment Communities, Inc. (REIT)	1,600	59,456
National Retail Properties, Inc. (REIT)	4,700	80,793
OMEGA Healthcare Investors, Inc. (REIT)	2,500	39,925
Parkway Properties, Inc. (REIT)	2,300	41,400
Pennsylvania Real Estate Investment Trust (REIT)	1,600	11,920
Potlatch Corp. (REIT)	1,900	49,419
ProLogis (REIT)	3,000	41,670
Realty Income Corp. (REIT)	4,500	104,175
Redwood Trust, Inc. (REIT)	1,100	16,401
Senior Housing Properties Trust (REIT)	4,500	80,640
Simon Property Group, Inc. (REIT)	2,300	122,199
Sovran Self Storage, Inc. (REIT)	1,400	50,400
Stockland (REIT)	923	2,671
Strategic Hotels & Resorts, Inc. (REIT)	4,400	7,392
Sunstone Hotel Investors, Inc. (REIT)	4,200	25,998
Unibail-Rodamco (REIT)	40	5,958
Vornado Realty Trust (REIT)	1,600	96,560
Washington Real Estate Investment Trust (REIT)	2,600	73,580
Wereldhave NV (REIT)	48	4,240
Westfield Group (REIT)	891	8,209
		1,971,921
Real Estate Management & Development 0.0%		
Atrium European Real Estate Ltd.*	2,003	7,301
Brookfield Asset Management, Inc. "A"	300	4,508
CapitaLand Ltd.	5,000	10,985
Cheung Kong (Holdings) Ltd.	2,000	19,068
City Developments Ltd.	1,000	4,462
Hang Lung Properties Ltd.	2,000	4,387
Henderson Land Development Co., Ltd.	1,000	3,736
Hopewell Holdings Ltd.	1,000	3,308
Kerry Properties Ltd.	1,000	2,691
Lend Lease Corp., Ltd.	287	1,451
Mitsubishi Estate Co., Ltd.	1,000	16,491

	Shares	Value ($)
Mitsui Fudosan Co., Ltd.	1,000	16,618
New World Development Co., Ltd.	6,000	6,130
Sino Land Co., Ltd.	6,000	6,271
Sun Hung Kai Properties Ltd.	2,000	16,817
Swire Pacific Ltd. "A"	1,000	6,934
Wharf Holdings Ltd.	2,000	5,526
		136,684
Thrifts & Mortgage Finance 0.4%		
Astoria Financial Corp.	3,200	52,736
Capitol Federal Financial	3,433	156,545
Dime Community Bancshares	12,300	163,590
Doral Financial Corp.*	7,500	56,250
Flushing Financial Corp.	4,600	55,016
Hudson City Bancorp., Inc.	29,800	475,608
Ocwen Financial Corp.*	7,700	70,686
WSFS Financial Corp.	700	33,593
		1,064,024
Health Care 9.8%		
Biotechnology 1.6%		
Actelion Ltd. (Registered)*	83	4,675
Alexion Pharmaceuticals, Inc.*	800	28,952
Alnylam Pharmaceuticals, Inc.*	6,700	165,691
Amgen, Inc.*	11,200	646,800
Celgene Corp.*	14,300	790,504
CSL Ltd.	3,003	70,911
Cubist Pharmaceuticals, Inc.*	6,900	166,704
CV Therapeutics, Inc.*	17,100	157,491
Emergent Biosolutions, Inc.*	700	18,277
Facet Biotech Corp.*	2,600	24,934
Genentech, Inc.*	5,990	496,631
Genomic Health, Inc.*	1,300	25,324
Gilead Sciences, Inc.*	32,880	1,681,483
Grifols SA	301	5,228
Intercell AG*	10,870	333,281
Myriad Genetics, Inc.*	3,100	205,406
NPS Pharmaceuticals, Inc.*	6,500	40,365
PDL BioPharma, Inc.	25,500	157,590
		5,020,247
Health Care Equipment & Supplies 2.0%		
ArthroCare Corp.*	10,400	49,608
Baxter International, Inc.	37,287	1,998,210
Becton, Dickinson & Co.	18,822	1,287,237
C.R. Bard, Inc.	7,850	661,441
Cochlear Ltd.	314	12,362
Essilor International SA	494	23,178
Getinge AB "B"	200	2,397
Hologic, Inc.*	9,900	129,393
Medtronic, Inc.	25,700	807,494
Merit Medical Systems, Inc.*	4,900	87,857
Nobel Biocare Holding AG (Bearer)	155	3,175
Olympus Corp.	1,000	20,081
Smith & Nephew PLC	1,343	8,521
Sonova Holding AG (Registered)	59	3,559
STERIS Corp.	5,600	133,784
Synthes, Inc.	35	4,424
Terumo Corp.	5,100	238,838
Thoratec Corp.*	5,900	191,691
Varian Medical Systems, Inc.*	5,300	185,712
William Demant Holding AS*	50	2,077
Zimmer Holdings, Inc.*	7,490	302,746
		6,153,785

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

	Shares	Value ($)
Health Care Providers & Services 1.4%		
Aetna, Inc.	14,000	399,000
Alliance Imaging, Inc.*	8,900	70,933
Celesio AG	338	9,231
Centene Corp.*	6,300	124,173
Community Health Systems, Inc.*	5,700	83,106
CorVel Corp.*	4,600	101,108
Emergency Medical Services Corp. "A"*	4,100	150,101
Express Scripts, Inc.*	3,200	175,936
Fresenius Medical Care AG & Co. KGaA	5,993	281,031
Gentiva Health Services, Inc.*	5,100	149,226
Healthspring, Inc.*	1,500	29,955
Humana, Inc.*	1,800	67,104
Kindred Healthcare, Inc.*	5,800	75,516
Laboratory Corp. of America Holdings*	5,800	373,578
Landauer, Inc.	100	7,330
LHC Group, Inc.*	4,500	162,000
LifePoint Hospitals, Inc.*	10,700	244,388
Magellan Health Services, Inc.*	2,000	78,320
McKesson Corp.	1,800	69,714
Medco Health Solutions, Inc.*	9,486	397,558
Mediceo Paltac Holdings Co., Ltd.	400	4,821
Owens & Minor, Inc.	3,000	112,950
RehabCare Group, Inc.*	3,300	50,028
Sonic Healthcare Ltd.	1,874	19,077
Suzuken Co., Ltd.	200	6,026
Triple-S Management Corp. "B"*	1,900	21,850
UnitedHealth Group, Inc.	5,330	141,778
Universal Health Services, Inc. "B"	4,800	180,336
WellPoint, Inc.*	13,640	574,653
		4,160,827
Life Sciences Tools & Services 0.6%		
Albany Molecular Research, Inc.*	800	7,792
eResearchTechnology, Inc.*	22,500	149,175
Gerresheimer AG	7,449	204,221
Lonza Group AG (Registered)	2,905	268,553
Luminex Corp.*	7,900	168,744
Thermo Fisher Scientific, Inc.*	26,745	911,202
		1,709,687
Pharmaceuticals 4.2%		
Abbott Laboratories	35,803	1,910,806
Astellas Pharma, Inc.	7,700	313,324
AstraZeneca PLC	1,584	64,182
Bayer AG	9,255	543,683
Bristol-Myers Squibb Co.	2,300	53,475
Caraco Pharmaceutical Laboratories Ltd.*	8,700	51,504
Chugai Pharmaceutical Co., Ltd.	600	11,614
Daiichi Sankyo Co., Ltd.	1,700	40,408
Eisai Co., Ltd.	700	29,008
Elan Corp. PLC*	26,440	155,770
Eli Lilly & Co.	23,820	959,231
GlaxoSmithKline PLC	5,467	101,492
Hisamitsu Pharmaceutical Co., Inc.	200	8,165
Johnson & Johnson	33,682	2,015,194
Medicines Co.*	3,100	45,663
Medicis Pharmaceutical Corp. "A"	5,200	72,280
Merck & Co., Inc.	31,601	960,670
Merck KGaA	235	21,366
Mitsubishi Tanabe Pharma Corp.	1,000	15,119

	Shares	Value ($)
Novartis AG (Registered)	11,615	581,964
Novo Nordisk AS "B"	9,474	482,126
Ono Pharmaceutical Co., Ltd.	300	15,599
Perrigo Co.	4,800	155,088
Pfizer, Inc.	110,223	1,952,049
POZEN, Inc.*	17,300	87,192
Roche Holding AG (Genusschein)	4,024	619,429
Salix Pharmaceuticals Ltd.*	4,400	38,852
Sanofi-Aventis	2,661	169,011
Shionogi & Co., Ltd.	1,000	25,685
Shire PLC	640	9,359
Takeda Pharmaceutical Co., Ltd.	1,800	93,370
Teva Pharmaceutical Industries Ltd. (ADR)	15,295	651,108
UCB SA	3,843	125,180
ViroPharma, Inc.*	12,700	165,354
VIVUS, Inc.*	3,300	17,556
Wyeth	13,250	497,008
		13,058,884
Industrials 6.7%		
Aerospace & Defense 1.6%		
BAE Systems PLC	30,297	165,126
Bombardier, Inc. "B"	3,500	12,616
CAE, Inc.	700	4,593
Cobham PLC	1,159	3,446
European Aeronautic Defence & Space Co.	222	3,748
Finmeccanica SpA	206	3,156
General Dynamics Corp.	10,500	604,695
Goodrich Corp.	11,400	422,028
Honeywell International, Inc.	37,591	1,234,112
L-3 Communications Holdings, Inc.	3,800	280,364
Lockheed Martin Corp.	8,500	714,680
Northrop Grumman Corp.	5,800	261,232
Precision Castparts Corp.	1,400	83,272
Rolls-Royce Group PLC*	1,977	9,685
Singapore Technologies Engineering Ltd.	9,000	14,886
Teledyne Technologies, Inc.*	1,600	71,280
Thales SA	71	2,963
United Technologies Corp.	20,033	1,073,769
		4,965,651
Air Freight & Logistics 0.0%		
Atlas Air Worldwide Holdings, Inc.*	1,300	24,570
Deutsche Post AG (Registered)	825	13,957
TNT NV	1,012	19,437
Toll Holdings Ltd.	2,758	11,925
		69,889
Airlines 0.1%		
Air France-KLM	113	1,452
Allegiant Travel Co.*	600	29,142
AMR Corp.*	17,700	188,859
Deutsche Lufthansa AG (Registered)	185	2,929
Hawaiian Holdings, Inc.*	3,700	23,606
Iberia Lineas Aereas de Espana SA	855	2,395
Qantas Airways Ltd.	7,435	13,710
Singapore Airlines Ltd.	3,000	23,550
		285,643
Building Products 0.2%		
AAON, Inc.	7,100	148,248
Ameron International Corp.	1,100	69,212

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

	Shares	Value ($)
Apogee Enterprises, Inc.	5,500	56,980
Asahi Glass Co., Ltd.	1,000	5,680
Assa Abloy AB "B"	400	4,538
Compagnie de Saint-Gobain	180	8,490
Daikin Industries Ltd.	100	2,637
Geberit AG (Registered)	59	6,356
Gibraltar Industries, Inc.	6,000	71,640
Insteel Industries, Inc.	10,700	120,803
Wienerberger AG	44	735
		495,319
Commercial Services & Supplies 0.3%		
Babcock International Group PLC	10,510	72,299
Brambles Ltd.	7,108	36,934
Comfort Systems USA, Inc.	13,900	148,174
Deluxe Corp.	800	11,968
G4S PLC	2,453	7,280
Knoll, Inc.	13,700	123,574
Loomis AB "B"*	80	496
Rentokil Initial PLC	1,774	1,135
Ritchie Bros. Auctioneers, Inc.	400	8,509
Secom Co., Ltd.	100	5,151
Securitas AB "B"	886	7,272
Serco Group PLC	451	2,935
Standard Register Co.	5,400	48,222
Sykes Enterprises, Inc.*	8,300	158,696
The Brink's Co.	15,200	408,576
		1,041,221
Construction & Engineering 0.3%		
ACS, Actividades de Construccion y Servicios SA	1,251	57,508
Balfour Beatty PLC	491	2,339
Bouygues SA	209	8,847
EMCOR Group, Inc.*	9,300	208,599
FLSmidth & Co. AS	306	10,648
Fluor Corp.	1,700	76,279
Fomento de Construcciones y Contratas SA	208	6,845
Grupo Ferrovial SA	303	8,347
Hochtief AG	208	10,552
Koninklijke Boskalis Westminster NV	311	7,224
Leighton Holdings Ltd.	669	13,012
MasTec, Inc.*	3,300	38,214
Michael Baker Corp.*	4,600	169,786
Perini Corp.*	8,200	191,716
Shaw Group, Inc.*	10,600	216,982
Skanska AB "B"	600	5,981
SNC-Lavalin Group, Inc.	400	12,860
Vinci SA	266	11,202
YIT Oyj	36	232
		1,057,173
Electrical Equipment 0.7%		
ABB Ltd. (Registered)*	21,314	321,292
Alstom SA	2,873	169,659
AZZ, Inc.*	200	5,020
Emerson Electric Co.	38,662	1,415,416
Gamesa Corp. Tecnologica SA	1,365	24,759
GrafTech International Ltd.*	23,900	198,848
Mitsubishi Electric Corp.	1,000	6,258
Q-Cells SE*	123	4,464
Schneider Electric SA	133	9,934
Solarworld AG	59	1,284
Sumitomo Electric Industries Ltd.	400	3,075
Vestas Wind Systems AS*	925	54,976
		2,214,985
Industrial Conglomerates 0.4%		
3M Co.	3,700	212,898
Carlisle Companies, Inc.	2,700	55,890
CSR Ltd.	3,192	3,940
Fraser & Neave Ltd.	5,000	10,306
General Electric Co.	45,900	743,580
Hutchison Whampoa Ltd.	14,000	70,620
Keppel Corp., Ltd.	11,000	33,340
Koninklijke (Royal) Philips Electronics NV	2,376	46,211
Orkla ASA	900	5,985
SembCorp Industries Ltd.	12,000	19,497
Siemens AG (Registered)	870	65,163
Smiths Group PLC	412	5,305
Wendel	118	5,862
		1,278,597
Machinery 1.6%		
AGCO Corp.*	11,600	273,644
Alfa Laval AB	938	8,144
Ampco-Pittsburgh Corp.	300	6,510
Atlas Copco AB "A"	2,312	19,902
Atlas Copco AB "B"	1,266	9,731
Caterpillar, Inc.	5,770	257,746
Chart Industries, Inc.*	14,600	155,198
CIRCOR International, Inc.	5,000	137,500
Columbus McKinnon Corp.*	2,500	34,125
Cummins, Inc.	5,100	136,323
Dover Corp.	18,549	610,633
EnPro Industries, Inc.*	3,000	64,620
FANUC Ltd.	100	7,112
Federal Signal Corp.	10,400	85,384
Flowserve Corp.	3,700	190,550
Force Protection, Inc.*	23,700	141,726
Gardner Denver, Inc.*	9,100	212,394
GEA Group AG	285	4,887
Gorman-Rupp Co.	400	12,448
Invensys PLC*	823	2,073
Joy Global, Inc.	6,700	153,363
KCI Konecranes Oyj	84	1,439
Komatsu Ltd.	400	5,067
Kone Oyj "B"	1,749	38,349
Kubota Corp.	1,000	7,188
MAN AG	163	8,990
Manitowoc Co., Inc.	9,600	83,136
Metso Oyj	1,439	17,399
Mitsubishi Heavy Industries Ltd.	2,000	8,924
Mueller Water Products, Inc. "A"	1,400	11,760
Pall Corp.	12,500	355,375
Parker Hannifin Corp.	20,134	856,500
Robbins & Myers, Inc.	3,600	58,212
Sandvik AB	1,727	10,972
Sauer-Danfoss, Inc.	9,000	78,750
Scania AB "B"	839	8,397
Schindler Holding AG	84	3,839
SembCorp Marine Ltd.	2,000	2,357
SKF AB "B"	600	5,973
Sulzer AG (Registered)	40	2,306
Sun Hydraulics Corp.	4,400	82,896
Terex Corp.*	3,400	58,888

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

	Shares	Value ($)
Timken Co.	15,000	294,450
Titan International, Inc.	11,800	97,350
Trinity Industries, Inc.	5,600	88,256
Vallourec SA	33	3,753
Volvo AB "A"	300	1,689
Volvo AB "B"	1,864	10,299
Wartsila Oyj	1,043	31,037
Xerium Technologies, Inc.*	5,000	3,300
Zardoya Otis SA	934	16,628
		4,777,492
Marine 0.1%		
A P Moller-Maersk AS "A"	2	10,855
A P Moller-Maersk AS "B"	5	26,790
American Commercial Lines, Inc.*	15,100	73,990
Kuehne & Nagel International AG (Registered)	78	5,057
Mitsui O.S.K. Lines Ltd.	1,000	6,141
Nippon Yusen Kabushiki Kaisha	1,000	6,167
Pacific Basin Shipping Ltd.	15,000	6,896
TBS International Ltd. "A"*	16,800	168,504
		304,400
Professional Services 0.1%		
Adecco SA (Registered)	181	6,143
Capita Group PLC	467	4,976
COMSYS IT Partners, Inc.*	3,100	6,944
Experian PLC	763	4,778
Exponent, Inc.*	2,200	66,176
Manpower, Inc.	4,900	166,551
Randstad Holdings NV	312	6,334
SGS SA (Registered)	7	7,329
		269,231
Road & Rail 1.0%		
Burlington Northern Santa Fe Corp.	6,300	476,973
Canadian National Railway Co.	15,000	544,107
Canadian Pacific Railway Ltd.	400	13,278
Central Japan Railway Co.	1	8,643
ComfortDelGro Corp., Ltd.	12,000	12,147
CSX Corp.	8,000	259,760
DSV AS	1,127	12,273
East Japan Railway Co.	4,700	365,966
FirstGroup PLC	431	2,696
Kintetsu Corp.	1,000	4,595
Marten Transport Ltd.*	1,000	18,960
MTR Corp., Ltd.	9,000	20,985
Norfolk Southern Corp.	18,200	856,310
Ryder System, Inc.	11,300	438,214
Tokyu Corp.	1,000	5,033
Werner Enterprises, Inc.	8,100	140,454
West Japan Railway Co.	1	4,550
		3,184,944
Trading Companies & Distributors 0.2%		
Bunzl PLC	366	3,124
Finning International, Inc.	500	5,772
Itochu Corp.	1,000	5,017
Marubeni Corp.	1,000	3,811
Mitsubishi Corp.	14,600	204,961
Mitsui & Co., Ltd.	1,000	10,229
Noble Group Ltd.	6,000	4,298
Sumitomo Corp.	500	4,407
TAL International Group, Inc.	5,100	71,910
United Rentals, Inc.*	19,300	176,016
Wolseley PLC	527	2,938
		492,483
Transportation Infrastructure 0.1%		
Abertis Infraestructuras SA	1,697	30,198
Atlantia SpA	186	3,420
Brisa	14,625	109,277
Cintra Concesiones de Infraestructuras de Transporte SA	1,277	9,608
Macquarie Infrastructure Group (Unit)	11,784	14,134
Transurban Group (Unit)	6,344	24,361
		190,998
Information Technology 8.0%		
Communications Equipment 1.0%		
Alcatel-Lucent*	9,271	20,018
Brocade Communications Systems, Inc.*	137,721	385,619
Cisco Systems, Inc.*	46,070	750,941
Comtech Telecommunications Corp.*	1,600	73,312
DG Fastchannel, Inc.*	4,800	59,904
Nokia Oyj	16,623	257,705
Nokia Oyj (ADR)	32,996	514,737
Plantronics, Inc.	3,400	44,880
QUALCOMM, Inc.	15,130	542,108
Research In Motion Ltd.*	1,900	76,185
Tandberg ASA	100	1,101
Tekelec*	9,800	130,732
Telefonaktiebolaget LM Ericsson "B"	11,141	85,446
		2,942,688
Computers & Peripherals 1.9%		
Apple, Inc.*	12,900	1,101,015
EMC Corp.*	36,091	377,873
Fujitsu Ltd.	1,000	4,834
Hewlett-Packard Co.	49,900	1,810,871
International Business Machines Corp.	21,640	1,821,223
Lexmark International, Inc. "A"*	2,800	75,320
Logitech International SA (Registered)*	13,814	215,658
NCR Corp.*	6,700	94,738
NEC Corp.	1,000	3,356
Synaptics, Inc.*	7,400	122,544
Toshiba Corp.	2,000	8,235
Western Digital Corp.*	17,000	194,650
Wincor Nixdorf AG	83	3,957
		5,834,274
Electronic Equipment, Instruments & Components 0.5%		
Arrow Electronics, Inc.*	3,300	62,172
Avnet, Inc.*	17,600	320,496
Benchmark Electronics, Inc.*	1,100	14,047
Daktronics, Inc.	6,600	61,776
Electro Rent Corp.	4,500	50,220
Electrocomponents PLC	2,281	4,663
Fujifilm Holdings Corp.	200	4,402
Hitachi Ltd.	4,000	15,512
HOYA Corp.	200	3,474
IBIDEN Co., Ltd.	100	2,062
Jabil Circuit, Inc.	75,300	508,275
Kyocera Corp.	100	7,214

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	Shares	Value ($)
Mettler-Toledo International, Inc.*	5,500	370,700
Multi-Fineline Electronix, Inc.*	11,600	135,604
Murata Manufacturing Co., Ltd.	100	3,920
Nidec Corp.	100	3,889
RadiSys Corp.*	3,700	20,461
TDK Corp.	100	3,673
Technitrol, Inc.	11,000	38,280
		1,630,840
Internet Software & Services 0.5%		
EarthLink, Inc.*	7,100	47,996
eBay, Inc.*	10,900	152,164
Google, Inc. "A"*	2,915	896,800
GSI Commerce, Inc.*	2,500	26,300
InfoSpace, Inc.	2,400	18,120
Liquidity Services, Inc.*	2,200	18,326
ModusLink Global Solutions, Inc.*	5,300	15,317
SAVVIS, Inc.*	16,000	110,240
United Internet AG (Registered)	218	1,951
United Online, Inc.	6,900	41,883
ValueClick, Inc.*	5,500	37,620
Websense, Inc.*	1,500	22,455
Yahoo! Japan Corp.	9	3,682
Yahoo!, Inc.*	9,800	119,560
		1,512,414
IT Services 1.4%		
Accenture Ltd. "A"	24,910	816,799
Alliance Data Systems Corp.*	1,800	83,754
Atos Origin SA	177	4,442
Automatic Data Processing, Inc.	11,600	456,344
Broadridge Financial Solutions, Inc.	12,100	151,734
Cap Gemini SA	629	24,244
CGI Group, Inc. "A"*	600	4,666
Computer Sciences Corp.*	8,600	302,204
CSG Systems International, Inc.*	9,300	162,471
Fiserv, Inc.*	7,600	276,412
Gartner, Inc.*	9,500	169,385
iGATE Corp.*	12,300	80,073
Indra Sistemas SA	8,986	204,180
Logica PLC	24,583	24,552
ManTech International Corp. "A"*	3,300	178,827
NTT Data Corp.	1	4,014
SAIC, Inc.*	28,000	545,440
Sapient Corp.*	9,200	40,848
Syntel, Inc.	1,000	23,120
TNS, Inc.*	1,400	13,146
Visa, Inc. "A"	11,300	592,685
		4,159,340
Office Electronics 0.1%		
Canon, Inc.	11,000	345,307
Konica Minolta Holdings, Inc.	500	3,875
Neopost SA	90	8,146
Ricoh Co., Ltd.	1,000	12,735
		370,063
Semiconductors & Semiconductor Equipment 1.2%		
Analog Devices, Inc.	15,600	296,712
ARM Holdings PLC	1,833	2,294
ASML Holding NV	5,496	98,077
Broadcom Corp. "A"*	14,640	248,441
Infineon Technologies AG*	2,218	3,053
Intel Corp.	95,131	1,394,620
IXYS Corp.	2,400	19,824
Linear Technology Corp.	3,200	70,784
Microsemi Corp.*	11,900	150,416
ROHM Co., Ltd.	100	5,049
Skyworks Solutions, Inc.*	25,800	142,932
STMicroelectronics NV	2,700	18,029
Taiwan Semiconductor Manufacturing Co., Ltd. (ADR)	67,097	530,066
Texas Instruments, Inc.	33,700	523,024
Tokyo Electron Ltd.	100	3,512
Ultratech, Inc.*	4,800	57,408
Volterra Semiconductor Corp.*	18,500	132,275
		3,696,516
Software 1.4%		
ACI Worldwide, Inc.*	10,300	163,770
Adobe Systems, Inc.*	14,650	311,899
Advent Software, Inc.*	700	13,979
Compuware Corp.*	17,300	116,775
Dassault Systemes SA	339	15,319
Electronic Arts, Inc.*	8,100	129,924
i2 Technologies, Inc.*	5,200	33,228
Intuit, Inc.*	2,400	57,096
JDA Software Group, Inc.*	7,700	101,101
Mentor Graphics Corp.*	2,100	10,857
Microsoft Corp.	120,568	2,343,842
Misys PLC	1,295	1,860
Nintendo Co., Ltd.	800	307,356
Oracle Corp.*	18,850	334,210
Pegasystems, Inc.	1,300	16,068
Renaissance Learning, Inc.	1,600	14,384
SAP AG	2,145	76,875
Symantec Corp.*	3,300	44,616
The Sage Group PLC	21,974	54,035
Tyler Technologies, Inc.*	13,200	158,136
		4,305,330
Materials 3.0%		
Chemicals 1.8%		
Agrium, Inc.	100	3,359
Air Liquide SA	303	27,723
Air Products & Chemicals, Inc.	11,220	564,029
Airgas, Inc.	3,300	128,667
Akzo Nobel NV	1,417	58,433
Asahi Kasei Corp.	1,000	4,395
Ashland, Inc.	14,700	154,497
BASF SE	8,127	321,135
CF Industries Holdings, Inc.	2,800	137,648
Ecolab, Inc.	15,850	557,128
GenTek, Inc.*	1,600	24,080
Givaudan SA (Registered)	8	6,302
Incitec Pivot Ltd.	520	920
Innophos Holdings, Inc.	8,200	162,442
JSR Corp.	200	2,251
K&S AG	221	12,688
Koninklijke DSM NV	897	22,994
Kuraray Co., Ltd.	500	3,892
Linde AG	2,568	217,313
LSB Industries, Inc.*	4,100	34,112
Mitsubishi Chemical Holdings Corp.	1,000	4,413
Mitsubishi Gas Chemical Co., Inc.	1,000	4,087
Mitsui Chemicals, Inc.	1,000	3,696
Monsanto Co.	14,700	1,034,145
Nitto Denko Corp.	200	3,842
Novozymes AS "B"	1,650	131,453

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	Shares	Value ($)
Orica Ltd.	1,199	11,772
Potash Corp. of Saskatchewan, Inc.	1,901	137,867
Praxair, Inc.	17,152	1,018,143
Shin-Etsu Chemical Co., Ltd.	400	18,346
Showa Denko KK	2,000	2,896
Solvay SA	1,411	104,905
Sumitomo Chemical Co., Ltd.	2,000	6,826
Syngenta AG (Registered)	212	41,071
Teijin Ltd.	1,000	2,827
Terra Industries, Inc.	9,100	151,697
The Mosaic Co.	2,300	79,580
Toray Industries, Inc.	2,000	10,185
Ube Industries Ltd.	1,000	2,807
Umicore	3,028	59,747
Wacker Chemie AG	47	4,998
Yara International ASA	6,460	141,195
		5,420,506
Construction Materials 0.1%		
CRH PLC	13,831	349,062
Fletcher Building Ltd.	4,252	14,348
Holcim Ltd. (Registered)	403	23,204
Imerys SA	73	3,320
Lafarge SA	142	8,634
		398,568
Containers & Packaging 0.2%		
Amcor Ltd.	605	2,459
Rock-Tenn Co. "A"	2,400	82,032
Sealed Air Corp.	4,800	71,712
Sonoco Products Co.	19,266	446,201
Toyo Seikan Kaisha Ltd.	300	5,168
		607,572
Metals & Mining 0.8%		
Acerinox SA	5,793	92,992
Agnico-Eagle Mines Ltd.	100	5,085
Alumina Ltd.	738	722
Anglo American PLC	997	22,773
ArcelorMittal	7,371	177,665
Barrick Gold Corp.	18,100	655,530
BHP Billiton Ltd.	2,466	51,937
BHP Billiton PLC	1,501	28,274
BlueScope Steel Ltd.	470	1,154
Compass Minerals International, Inc.	3,200	187,712
First Quantum Minerals Ltd.	300	4,279
Fortescue Metals Group Ltd.*	700	957
Freeport-McMoRan Copper & Gold, Inc.	14,624	357,411
Goldcorp, Inc.	700	21,842
JFE Holdings, Inc.	600	15,870
Kinross Gold Corp.	400	7,290
Kobe Steel Ltd.	3,000	5,525
Mitsubishi Materials Corp.	4,000	10,085
Newcrest Mining Ltd.	264	6,261
Nippon Steel Corp.	6,000	19,703
Nisshin Steel Co., Ltd.	3,000	6,171
Norsk Hydro ASA	22,600	91,273
OneSteel Ltd.	1,038	1,797
Outokumpu Oyj	1,187	13,947
OZ Minerals Ltd.	1,031	395
Rautaruukki Oyj	857	14,770
Reliance Steel & Aluminum Co.	3,600	71,784
Rio Tinto Ltd.	360	9,643

	Shares	Value ($)
Rio Tinto PLC	696	15,080
Salzgitter AG	31	2,448
Sherritt International Corp.	500	1,270
SSAB Svenskt Stal AB "A"	2,280	20,083
Steel Dynamics, Inc.	25,400	283,972
Stillwater Mining Co.*	6,300	31,122
Sumitomo Metal Industries Ltd.	6,000	14,787
Sumitomo Metal Mining Co., Ltd.	1,000	10,629
Teck Cominco Ltd. "B"	324	1,580
ThyssenKrupp AG	248	6,707
voestalpine AG	341	7,311
Xstrata PLC	20,368	189,883
Yamana Gold, Inc.	300	2,296
		2,470,015
Paper & Forest Products 0.1%		
Clearwater Paper Corp.*	514	4,312
Oji Paper Co., Ltd.	1,000	5,879
Stora Enso Oyj "R"	7,986	62,341
Svenska Cellulosa AB "B"	7,800	66,702
UPM-Kymmene Oyj	6,191	78,498
		217,732

Telecommunication Services 3.0%

	Shares	Value ($)
Diversified Telecommunication Services 2.4%		
AT&T, Inc.	70,602	2,012,157
Atlantic Tele-Network, Inc.	4,100	108,855
BCE, Inc.	18,539	377,387
Belgacom SA	541	20,636
BT Group PLC	9,801	19,257
Cable & Wireless PLC	3,199	7,236
Deutsche Telekom AG (Registered)	31,007	471,107
Elisa Oyj	491	8,499
France Telecom SA	5,720	159,995
Global Crossing Ltd.*	10,500	83,370
Koninklijke (Royal) KPN NV	7,006	101,593
Nippon Telegraph & Telephone Corp.	6,300	337,128
NTELOS Holdings Corp.	1,400	34,524
Portugal Telecom SGPS SA (Registered)	12,213	103,638
Premiere Global Services, Inc.*	1,500	12,915
Singapore Telecommunications Ltd.	129,000	229,687
Swisscom AG (Registered)	357	115,251
Tele2 AB "B"	1,500	13,333
Telecom Corp. of New Zealand Ltd.	160,665	214,432
Telecom Italia SpA	54,709	88,987
Telecom Italia SpA (RSP)	27,168	30,316
Telefonica SA	31,356	702,859
Telekom Austria AG	6,774	97,912
Telenor ASA	30,700	205,440
TeliaSonera AB	12,473	62,082
Telstra Corp., Ltd.	39,332	105,316
Telus Corp.	100	3,011
Telus Corp. (Non-Voting Shares)	400	11,308
Verizon Communications, Inc.	46,787	1,586,079
Windstream Corp.	6,300	57,960
		7,382,270
Wireless Telecommunication Services 0.6%		
America Movil SAB de CV "L" (ADR)	3,300	102,267
China Mobile Ltd.	34,500	349,789
KDDI Corp.	11	78,346

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

	Shares	Value ($)
Millicom International Cellular SA (SDR)	451	20,868
Mobistar SA	53	3,817
NTT DoCoMo, Inc.	57	112,364
Rogers Communications, Inc. "B"	1,400	41,495
Softbank Corp.	2,900	52,518
Syniverse Holdings, Inc.*	5,800	69,252
Telephone & Data Systems, Inc.	14,300	454,025
USA Mobility, Inc.*	13,700	158,509
Vodafone Group PLC	263,053	529,556
		1,972,806

Utilities 3.0%

Electric Utilities 2.0%

	Shares	Value ($)
Acciona SA	91	11,510
Allegheny Energy, Inc.	20,001	677,234
American Electric Power Co., Inc.	16,900	562,432
British Energy Group PLC	2,200	24,502
Cheung Kong Infrastructure Holdings Ltd.	1,000	3,773
Chubu Electric Power Co., Inc.	1,300	39,510
Chugoku Electric Power Co., Inc.	700	18,441
CLP Holdings Ltd.	15,000	101,987
Duke Energy Corp.	33,985	510,115
E.ON AG	9,802	396,365
Edison International	17,500	562,100
EDP — Energias de Portugal SA	25,897	97,604
Electricite de France	389	22,609
Enel SpA	21,075	134,777
Entergy Corp.	4,672	388,383
Exelon Corp.	6,577	365,747
FirstEnergy Corp.	12,301	597,583
Fortis, Inc.	1,800	35,854
Fortum Oyj	14,698	315,704
FPL Group, Inc.	8,429	424,231
Hokkaido Electric Power Co., Inc.	600	15,187
Hokuriku Electric Power Co.	500	14,153
HongKong Electric Holdings Ltd.	11,000	61,879
Iberdrola SA	10,143	94,180
Kansai Electric Power Co., Inc.	1,500	43,466
Kyushu Electric Power Co., Inc.	800	21,279
Oesterreichische Elektrizitaetswirtschafts AG (Verbund) "A"	68	3,120
PPL Corp.	7,700	236,313
Red Electrica Corporacion SA	229	11,602
Scottish & Southern Energy PLC	1,783	31,395
Shikoku Electric Power Co., Inc.	500	16,863
Southern Co.	6,470	239,390
Terna-Rete Elettrica Nazionale SpA	6,478	21,211
Tohoku Electric Power Co., Inc.	1,000	27,066
Tokyo Electric Power Co., Inc.	2,400	80,134
Union Fenosa SA	861	21,280
		6,228,979

Gas Utilities 0.3%

	Shares	Value ($)
Enagas	311	6,823
Gas Natural SDG SA	302	8,237
Hong Kong & China Gas Co., Ltd.	29,500	44,723
New Jersey Resources Corp.	4,800	188,880
ONEOK, Inc.	5,900	171,808
Osaka Gas Co., Ltd.	5,000	23,094
Snam Rete Gas SpA	4,641	25,634
South Jersey Industries, Inc.	1,900	75,715
The Laclede Group, Inc.	3,100	145,204
Tokyo Gas Co., Ltd.	5,000	25,337
WGL Holdings, Inc.	3,000	98,070
		813,525

Independent Power Producers & Energy Traders 0.0%

	Shares	Value ($)
Drax Group PLC	680	5,512
Electric Power Development Co., Ltd.	400	15,712
Iberdrola Renovables SA*	1,405	6,075
International Power PLC	4,087	14,190
TransAlta Corp.	2,300	45,273
		86,762

Multi-Utilities 0.7%

	Shares	Value ($)
A2A SpA	4,548	8,151
AGL Energy Ltd.	22,035	235,172
Avista Corp.	4,700	91,086
Canadian Utilities Ltd. "A"	700	22,965
CenterPoint Energy, Inc.	3,600	45,432
Centrica PLC	8,869	34,081
Dominion Resources, Inc.	4,600	164,864
GDF Suez	2,156	106,780
National Grid PLC	5,608	55,422
NiSource, Inc.	6,800	74,596
PG&E Corp.	21,059	815,194
RWE AG	658	59,152
Sempra Energy	4,000	170,520
Suez Environnement SA*	342	5,767
TECO Energy, Inc.	8,100	100,035
United Utilities Group PLC	1,332	12,054
Veolia Environnement	808	25,359
		2,026,630

Water Utilities 0.0%

	Shares	Value ($)
California Water Service Group	2,700	125,361
Severn Trent PLC	474	8,208
		133,569
Total Common Stocks (Cost $215,568,654)		**180,951,997**

Preferred Stocks 0.0%

Consumer Discretionary 0.0%

	Shares	Value ($)
Porsche Automobil Holding SE	50	3,895
Volkswagen AG	62	3,309
		7,204

Consumer Staples 0.0%

	Shares	Value ($)
Henkel AG & Co. KGaA	1,125	**36,069**

Financial 0.0%

	Shares	Value ($)
Preferred Blocker Inc., 144A, 9.0%	28	**7,996**

Health Care 0.0%

	Shares	Value ($)
Fresenius SE	338	**19,806**

Utilities 0.0%

	Shares	Value ($)
RWE AG	22	**1,663**
Total Preferred Stocks (Cost $122,753)		**72,738**

Convertible Preferred Stocks 0.0%

Consumer Discretionary

	Shares	Value ($)
ION Media Networks, Inc., 144A, 12.0%* (Cost $8,344)	60,000	**0**

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	Shares	Value ($)
Rights 0.0%		
Financials		
DBS Group Holdings Ltd., Expiration Date 1/20/2009*	1,500	3,123
Fortis, Expiration Date 7/4/2014*	6,275	0
HBOS PLC, Expiration Date 1/9/2009*	4,052	0
Lloyds TSB Group PLC, Expiration Date 1/12/2009*	565	0
Total Rights (Cost $0)		**3,123**

	Shares	Value ($)
Warrants 0.0%		
Financials		
New ASAT (Finance) Ltd., Expiration Date 2/1/2011* (Cost $0)	24,700	**1,938**

		Principal Amount ($)(a)	Value ($)
Corporate Bonds 11.7%			
Consumer Discretionary 0.9%			
AMC Entertainment, Inc., 8.0%, 3/1/2014		45,000	27,675
American Achievement Corp., 144A, 8.25%, 4/1/2012		15,000	11,550
American Achievement Group Holding Corp., 16.75%, 10/1/2012 (PIK)		22,571	5,417
Asbury Automotive Group, Inc.:			
7.625%, 3/15/2017		35,000	16,275
8.0%, 3/15/2014		15,000	7,125
British Sky Broadcasting Group PLC, 144A, 9.5%, 11/15/2018		500,000	510,451
Cablevision Systems Corp., Series B, 8.334%***, 4/1/2009		15,000	14,962
CanWest MediaWorks LP, 144A, 9.25%, 8/1/2015		25,000	9,500
Carrols Corp., 9.0%, 1/15/2013		15,000	10,125
Charter Communications Operating LLC, 144A, 10.875%, 9/15/2014		75,000	60,000
Comcast Corp., 6.4%, 5/15/2038		400,000	399,065
CSC Holdings, Inc.:			
6.75%, 4/15/2012		25,000	22,875
Series B, 8.125%, 7/15/2009		25,000	24,875
Series B, 8.125%, 8/15/2009		55,000	54,725
Denny's Holdings, Inc., 10.0%, 10/1/2012		10,000	6,925
DIRECTV Holdings LLC, 7.625%, 5/15/2016		70,000	67,900
Dollarama Group LP, 8.073%***, 8/15/2012 (b)		24,000	15,240
EchoStar DBS Corp.:			
6.625%, 10/1/2014		40,000	33,400
7.125%, 2/1/2016		35,000	29,225
Fontainebleau Las Vegas Holdings LLC, 144A, 10.25%, 6/15/2015		25,000	2,438
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015		30,000	20,400
Group 1 Automotive, Inc., 8.25%, 8/15/2013		15,000	10,050
Hertz Corp., 8.875%, 1/1/2014		85,000	52,275
Idearc, Inc., 8.0%, 11/15/2016		55,000	4,125
Indianapolis Downs LLC, 144A, 11.0%, 11/1/2012		20,000	10,900
Isle of Capri Casinos, Inc., 7.0%, 3/1/2014		30,000	12,750
Kabel Deutschland GmbH, 10.625%, 7/1/2014		75,000	66,750
Lamar Media Corp., Series C, 6.625%, 8/15/2015		20,000	14,450
Liberty Media LLC, 5.7%, 5/15/2013		5,000	3,278
MediMedia USA, Inc., 144A, 11.375%, 11/15/2014		15,000	9,000
MGM MIRAGE:			
6.625%, 7/15/2015		25,000	15,250
8.375%, 2/1/2011		20,000	11,900
MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010		40,000	30,000
Norcraft Holdings LP, 9.75%, 9/1/2012		80,000	59,600
Penske Automotive Group, Inc., 7.75%, 12/15/2016		50,000	23,250
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013		20,000	15,800
Quebecor Media, Inc., 7.75%, 3/15/2016		20,000	13,500
Quebecor World, Inc., 144A, 9.75%, 1/15/2015**		25,000	1,969
Reader's Digest Association, Inc., 9.0%, 2/15/2017		25,000	2,156
Sabre Holdings Corp., 8.35%, 3/15/2016		25,000	5,563
Seminole Hard Rock Entertainment, Inc., 144A, 4.496%***, 3/15/2014		30,000	15,225
Shingle Springs Tribal Gaming Authority, 144A, 9.375%, 6/15/2015		25,000	12,500
Simmons Co., Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014		105,000	12,075
Sinclair Television Group, Inc., 8.0%, 3/15/2012		26,000	19,565
Sirius XM Radio, Inc., 9.625%, 8/1/2013		55,000	10,244
Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013		30,000	11,175
TCI Communications, Inc., 8.75%, 8/1/2015		135,000	143,702
Time Warner Cable, Inc., 8.25%, 2/14/2014		750,000	760,849
Travelport LLC:			
6.828%***, 9/1/2014		20,000	5,900
9.875%, 9/1/2014		5,000	1,875
Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015**		5,000	663
United Components, Inc., 9.375%, 6/15/2013		5,000	2,100
Unity Media GmbH, 144A, 8.75%, 2/15/2015	EUR	50,000	54,559
Vertis, Inc., 13.5%, 4/1/2014 (PIK)		32,999	7,699
Vitro SAB de CV, 9.125%, 2/1/2017		40,000	12,000
Young Broadcasting, Inc., 8.75%, 1/15/2014		130,000	1,300
			2,784,145

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

	Principal Amount ($)(a)	Value ($)
Consumer Staples 1.3%		
Alliance One International, Inc., 8.5%, 5/15/2012	15,000	11,025
Coca-Cola Enterprises, Inc., 7.375%, 3/3/2014	1,000,000	1,098,105
CVS Caremark Corp., 6.25%, 6/1/2027	750,000	697,351
Delhaize America, Inc.:		
8.05%, 4/15/2027	30,000	27,763
9.0%, 4/15/2031	56,000	56,634
General Nutrition Centers, Inc., 7.584%***, 3/15/2014 (PIK)	15,000	8,400
Kroger Co., 6.15%, 1/15/2020	1,250,000	1,233,280
North Atlantic Trading Co., 144A, 10.0%, 3/1/2012	108,750	59,813
Reynolds American, Inc., 7.75%, 6/1/2018	750,000	615,322
Smithfield Foods, Inc., 7.75%, 7/1/2017	5,000	2,850
Viskase Companies, Inc., 11.5%, 6/15/2011	480,000	312,000
		4,122,543
Energy 0.3%		
Atlas Energy Resources LLC, 144A, 10.75%, 2/1/2018	55,000	33,550
Belden & Blake Corp., 8.75%, 7/15/2012	130,000	89,050
Bristow Group, Inc., 7.5%, 9/15/2017	30,000	20,100
Chaparral Energy, Inc., 8.5%, 12/1/2015	40,000	8,000
Chesapeake Energy Corp.:		
6.25%, 1/15/2018	20,000	14,800
6.875%, 1/15/2016	90,000	72,000
7.5%, 6/15/2014	10,000	8,450
Cimarex Energy Co., 7.125%, 5/1/2017	25,000	19,500
Delta Petroleum Corp., 7.0%, 4/1/2015	45,000	9,000
Dynegy Holdings, Inc., 6.875%, 4/1/2011	10,000	8,750
El Paso Corp., 7.25%, 6/1/2018	40,000	31,747
Forest Oil Corp., 144A, 7.25%, 6/15/2019	15,000	10,950
Frontier Oil Corp., 6.625%, 10/1/2011	20,000	18,100
KCS Energy, Inc., 7.125%, 4/1/2012	105,000	78,750
Mariner Energy, Inc.:		
7.5%, 4/15/2013	25,000	16,000
8.0%, 5/15/2017	20,000	10,400
Newfield Exploration Co., 7.125%, 5/15/2018	40,000	31,600
OPTI Canada, Inc.:		
7.875%, 12/15/2014	35,000	17,850
8.25%, 12/15/2014	70,000	37,800
Petrohawk Energy Corp., 144A, 7.875%, 6/1/2015	15,000	11,100
Plains Exploration & Production Co., 7.0%, 3/15/2017	15,000	10,275
Quicksilver Resources, Inc., 7.125%, 4/1/2016	70,000	37,450
Range Resources Corp., 7.25%, 5/1/2018	10,000	8,350
SandRidge Energy, Inc., 144A, 8.0%, 6/1/2018	20,000	11,100
Stone Energy Corp.:		
6.75%, 12/15/2014	40,000	19,600
8.25%, 12/15/2011	75,000	46,500
Tennessee Gas Pipeline Co., 7.625%, 4/1/2037	25,000	19,843
Tesoro Corp., 6.5%, 6/1/2017	25,000	13,719
Whiting Petroleum Corp.:		
7.0%, 2/1/2014	20,000	14,100
7.25%, 5/1/2012	50,000	37,250
Williams Companies, Inc.:		
8.125%, 3/15/2012	85,000	78,306
8.75%, 3/15/2032	50,000	37,250
Williams Partners LP, 7.25%, 2/1/2017	25,000	19,750
		900,990
Financials 5.0%		
Algoma Acquisition Corp., 144A, 9.875%, 6/15/2015	60,000	22,800
Ashton Woods USA LLC, 9.5%, 10/1/2015**	70,000	14,000
BB&T Corp., 5.2%, 12/23/2015	1,000,000	950,420
Buffalo Thunder Development Authority, 144A, 9.375%, 12/15/2014	15,000	3,000
Citigroup, Inc.:		
2.875%, 12/9/2011	3,000,000	3,093,516
6.125%, 5/15/2018	500,000	505,561
6.5%, 8/19/2013	530,000	534,816
Conproca SA de CV, REG S, 12.0%, 6/16/2010	279,855	284,752
Countrywide Home Loans, Inc., Series H, 6.25%, 4/15/2009	125,000	125,026
FIA Card Services NA, 144A, 7.125%, 11/15/2012	1,250,000	1,278,095
Ford Motor Credit Co., LLC:		
7.25%, 10/25/2011	155,000	113,229
7.875%, 6/15/2010	65,000	52,012
General Electric Capital Corp., Series A, 5.25%, 10/19/2012	1,250,000	1,259,014
GMAC LLC, 144A, 6.875%, 9/15/2011	132,000	94,324
Hawker Beechcraft Acquisition Co., LLC, 8.5%, 4/1/2015	65,000	26,650
Hexion US Finance Corp., 9.75%, 11/15/2014	20,000	5,700
Inmarsat Finance PLC, 10.375%, 11/15/2012	30,000	26,587
iPayment, Inc., 9.75%, 5/15/2014	25,000	12,500
JPMorgan Chase & Co., 4.75%, 5/1/2013	875,000	863,423
Local TV Finance LLC, 144A, 9.25%, 6/15/2015 (PIK)	25,000	5,500
Merrill Lynch & Co., Inc., 6.875%, 4/25/2018	750,000	784,519
New ASAT (Finance) Ltd., 9.25%, 2/1/2011	95,000	9,975
Orascom Telecom Finance SCA, 144A, 7.875%, 2/8/2014	100,000	53,000
PNC Bank NA, 6.875%, 4/1/2018	1,000,000	1,063,968
PNC Funding Corp., 2.3%, 6/22/2012	3,000,000	3,029,967
Qwest Capital Funding, Inc., 7.0%, 8/3/2009	25,000	24,500
Rainbow National Services LLC, 144A, 10.375%, 9/1/2014	4,000	3,560
SLM Corp., Series A, 4.5%, 7/26/2010	125,000	108,483

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	Principal Amount ($)(a)	Value ($)
Sprint Capital Corp.:		
7.625%, 1/30/2011	20,000	16,700
8.375%, 3/15/2012	10,000	8,000
The Goldman Sachs Group, Inc., 6.15%, 4/1/2018	1,000,000	960,961
Tropicana Entertainment LLC, 9.625%, 12/15/2014**	75,000	750
UCI Holdco, Inc., 9.996%***, 12/15/2013 (PIK)	34,934	5,939
Universal City Development Partners Ltd., 11.75%, 4/1/2010	125,000	80,625
		15,421,872
Health Care 0.2%		
Advanced Medical Optics, Inc., 7.5%, 5/1/2017	45,000	22,950
Boston Scientific Corp., 6.0%, 6/15/2011	25,000	23,750
Community Health Systems, Inc., 8.875%, 7/15/2015	185,000	170,200
HCA, Inc.:		
9.125%, 11/15/2014	35,000	32,463
9.25%, 11/15/2016	130,000	119,275
9.625%, 11/15/2016 (PIK)	40,000	31,200
HEALTHSOUTH Corp., 10.75%, 6/15/2016	20,000	18,350
IASIS Healthcare LLC, 8.75%, 6/15/2014	30,000	23,250
Psychiatric Solutions, Inc., 7.75%, 7/15/2015	25,000	18,375
Surgical Care Affiliates, Inc., 144A, 8.875%, 7/15/2015 (PIK)	30,000	18,300
The Cooper Companies, Inc., 7.125%, 2/15/2015	45,000	37,800
Vanguard Health Holding Co. I, LLC, Step-up Coupon, 0% to 10/1/2009, 11.25% to 10/1/2015	25,000	19,625
Vanguard Health Holding Co. II, LLC, 9.0%, 10/1/2014	75,000	62,625
		598,163
Industrials 0.6%		
Actuant Corp., 6.875%, 6/15/2017	20,000	15,050
ARAMARK Corp., 8.5%, 2/1/2015	10,000	9,050
Baldor Electric Co., 8.625%, 2/15/2017	25,000	18,625
BE Aerospace, Inc., 8.5%, 7/1/2018	50,000	45,000
Belden, Inc., 7.0%, 3/15/2017	25,000	18,750
Browning-Ferris Industries, Inc., 7.4%, 9/15/2035	75,000	61,873
Cenveo Corp., 144A, 10.5%, 8/15/2016	10,000	5,800
Congoleum Corp., 8.625%, 8/1/2008**	190,000	142,500
DRS Technologies, Inc.:		
6.625%, 2/1/2016	10,000	10,000
6.875%, 11/1/2013	65,000	64,675
7.625%, 2/1/2018	80,000	80,000
Esco Corp., 144A, 8.625%, 12/15/2013	45,000	31,500
General Cable Corp., 7.125%, 4/1/2017	15,000	9,900
Great Lakes Dredge & Dock Co., 7.75%, 12/15/2013	20,000	15,425
K. Hovnanian Enterprises, Inc., 8.875%, 4/1/2012	25,000	7,250

	Principal Amount ($)(a)	Value ($)
Kansas City Southern de Mexico SA de CV:		
7.375%, 6/1/2014	20,000	16,364
9.375%, 5/1/2012	60,000	54,900
Kansas City Southern Railway Co., 7.5%, 6/15/2009	20,000	20,050
Lockheed Martin Corp., 4.121%, 3/14/2013	500,000	487,411
Mobile Mini, Inc., 9.75%, 8/1/2014	25,000	17,750
Moog, Inc., 144A, 7.25%, 6/15/2018	10,000	8,000
Navios Maritime Holdings, Inc., 9.5%, 12/15/2014	35,000	19,425
R.H. Donnelley Corp., Series A-4, 8.875%, 10/15/2017	75,000	11,250
RBS Global & Rexnord Corp., 9.5%, 8/1/2014	20,000	14,900
Seitel, Inc., 9.75%, 2/15/2014	15,000	5,400
Titan International, Inc., 8.0%, 1/15/2012	85,000	62,900
TransDigm, Inc., 7.75%, 7/15/2014	15,000	12,300
Union Pacific Corp., 5.7%, 8/15/2018	500,000	481,368
United Rentals North America, Inc.:		
6.5%, 2/15/2012	15,000	11,850
7.0%, 2/15/2014	65,000	39,650
US Concrete, Inc., 8.375%, 4/1/2014	30,000	16,200
		1,815,116
Information Technology 0.4%		
Alion Science & Technology Corp., 10.25%, 2/1/2015	20,000	9,025
L-3 Communications Corp.:		
5.875%, 1/15/2015	80,000	72,000
Series B, 6.375%, 10/15/2015	35,000	32,725
Lucent Technologies, Inc., 6.45%, 3/15/2029	75,000	30,000
MasTec, Inc., 7.625%, 2/1/2017	35,000	26,293
Seagate Technology HDD Holdings, 6.8%, 10/1/2016	45,000	23,400
SunGard Data Systems, Inc., 10.25%, 8/15/2015	60,000	39,600
Vangent, Inc., 9.625%, 2/15/2015	15,000	8,719
Xerox Corp., 5.65%, 5/15/2013	1,300,000	1,020,344
		1,262,106
Materials 0.5%		
Appleton Papers, Inc., Series B, 8.125%, 6/15/2011	15,000	10,350
ARCO Chemical Co., 9.8%, 2/1/2020	195,000	21,450
Cascades, Inc., 7.25%, 2/15/2013	57,000	29,070
Chemtura Corp., 6.875%, 6/1/2016	50,000	25,500
CPG International I, Inc., 10.5%, 7/1/2013	50,000	28,000
Exopack Holding Corp., 11.25%, 2/1/2014	80,000	46,800
Freeport-McMoRan Copper & Gold, Inc.:		
8.25%, 4/1/2015	65,000	55,250
8.375%, 4/1/2017	120,000	98,400
GEO Specialty Chemicals, Inc.:		
144A, 7.5%***, 3/31/2015 (PIK)	200,330	144,237
144A, 9.968%***, 12/31/2009	322,000	231,840
Georgia-Pacific LLC, 144A, 7.125%, 1/15/2017	15,000	12,600
Hexcel Corp., 6.75%, 2/1/2015	95,000	72,200

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		Principal Amount ($)(a)	Value ($)
Huntsman LLC, 11.625%, 10/15/2010		122,000	106,750
Innophos, Inc., 8.875%, 8/15/2014		10,000	7,000
Jefferson Smurfit Corp., 8.25%, 10/1/2012		30,000	5,100
Koppers Holdings, Inc., Step-up Coupon, 0% to 11/15/2009, 9.875% to 11/15/2014		70,000	54,250
Metals USA Holdings Corp., 10.883%***, 7/1/2012 (PIK)		15,408	4,314
Millar Western Forest Products Ltd., 7.75%, 11/15/2013		15,000	7,500
Monsanto Co., 5.875%, 4/15/2038		500,000	536,232
NewMarket Corp., 7.125%, 12/15/2016		65,000	48,750
Radnor Holdings Corp., 11.0%, 3/15/2010**		40,000	50
Smurfit-Stone Container Enterprises, Inc., 8.0%, 3/15/2017		35,000	6,650
Terra Capital, Inc., Series B, 7.0%, 2/1/2017		50,000	36,750
The Mosaic Co., 144A, 7.375%, 12/1/2014		40,000	32,800
Witco Corp., 6.875%, 2/1/2026		60,000	16,800
Wolverine Tube, Inc., 10.5%, 4/1/2009		40,000	32,200
			1,670,843
Telecommunication Services 1.2%			
AT&T Mobility LLC, 6.5%, 12/15/2011		750,000	752,996
BCM Ireland Preferred Equity Ltd., 144A, 11.245%***, 2/15/2017 (PIK)	EUR	91,648	10,869
Cellco Partnership, 144A, 7.375%, 11/15/2013		750,000	791,310
Centennial Communications Corp.:			
10.0%, 1/1/2013		15,000	15,525
10.125%, 6/15/2013		40,000	40,400
Cincinnati Bell, Inc.:			
7.25%, 7/15/2013		70,000	61,600
8.375%, 1/15/2014		25,000	19,250
Cricket Communications, Inc.:			
9.375%, 11/1/2014		55,000	49,500
144A, 10.0%, 7/15/2015		50,000	45,750
Intelsat Corp.:			
144A, 9.25%, 8/15/2014		10,000	9,300
144A, 9.25%, 6/15/2016		110,000	100,100
Intelsat Subsidiary Holding Co., Ltd., 144A, 8.875%, 1/15/2015		60,000	54,600
iPCS, Inc., 5.318%***, 5/1/2013		10,000	7,100
MetroPCS Wireless, Inc., 9.25%, 11/1/2014		60,000	53,700
Millicom International Cellular SA, 10.0%, 12/1/2013		80,000	72,000
Qwest Corp.:			
7.25%, 9/15/2025		10,000	6,700
7.875%, 9/1/2011		65,000	59,800
8.875%, 3/15/2012		15,000	13,875

		Principal Amount ($)(a)	Value ($)
Rogers Communications, Inc., 6.8%, 8/15/2018		500,000	505,216
Sprint Nextel Corp., 6.0%, 12/1/2016		25,000	17,625
Stratos Global Corp., 9.875%, 2/15/2013		15,000	14,175
Telesat Canada, 144A, 11.0%, 11/1/2015		225,000	160,875
Verizon Communications, Inc., 8.95%, 3/1/2039		500,000	645,845
Virgin Media Finance PLC:			
8.75%, 4/15/2014		55,000	41,250
8.75%, 4/15/2014	EUR	45,000	44,099
Windstream Corp.:			
7.0%, 3/15/2019		25,000	19,250
8.625%, 8/1/2016		10,000	8,850
			3,621,560
Utilities 1.3%			
AES Corp.:			
8.0%, 10/15/2017		45,000	36,900
144A, 8.0%, 6/1/2020		50,000	38,750
144A, 8.75%, 5/15/2013		152,000	145,920
9.5%, 6/1/2009		25,000	24,812
Allegheny Energy Supply Co., LLC, 144A, 8.25%, 4/15/2012		190,000	187,150
American Electric Power Co., Inc., Series C, 5.375%, 3/15/2010		1,000,000	992,662
Appalachian Power Co., 7.0%, 4/1/2038		750,000	741,881
CenterPoint Energy, Inc., 6.5%, 5/1/2018		750,000	612,754
CMS Energy Corp., 8.5%, 4/15/2011		110,000	108,329
DPL, Inc., 6.875%, 9/1/2011		500,000	491,989
Edison Mission Energy, 7.0%, 5/15/2017		50,000	43,500
Energy Future Holdings Corp., 144A, 10.875%, 11/1/2017		70,000	49,700
Knight, Inc., 6.5%, 9/1/2012		15,000	12,675
Mirant Americas Generation LLC, 8.3%, 5/1/2011		45,000	43,650
Mirant North America LLC, 7.375%, 12/31/2013		20,000	19,200
NRG Energy, Inc.:			
7.25%, 2/1/2014		55,000	51,425
7.375%, 2/1/2016		50,000	46,500
7.375%, 1/15/2017		20,000	18,400
NV Energy, Inc.:			
6.75%, 8/15/2017		50,000	38,382
8.625%, 3/15/2014		8,000	7,213
Regency Energy Partners LP, 8.375%, 12/15/2013		31,000	21,235
Reliant Energy, Inc., 7.875%, 6/15/2017		55,000	44,550
Texas Competitive Electric Holdings Co., LLC, 144A, 10.5%, 11/1/2015		105,000	74,550
			3,852,127
Total Corporate Bonds (Cost $39,552,234)			**36,049,465**

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

	Principal Amount ($)(a)	Value ($)
Asset-Backed 0.8%		
Automobile Receivables 0.3%		
Capital Auto Receivables Asset Trust, "B", Series 2006-1, 5.26%, 10/15/2010	566,000	552,324
Ford Credit Auto Owner Trust, "B", Series 2007-B, 5.69%, 11/15/2012	379,000	289,195
		841,519
Home Equity Loans 0.5%		
Countrywide Asset-Backed Certificates, "1AF2", Series 2005-17, 5.363%, 5/25/2036	642,582	552,803
Credit-Based Asset Servicing and Securitization LLC, "AF2", Series 2006-CB2, 5.501%, 12/25/2036	1,135,415	941,923
		1,494,726
Total Asset-Backed (Cost $2,722,798)		**2,336,245**

	Principal Amount ($)(a)	Value ($)
Mortgage-Backed Securities Pass-Throughs 9.2%		
Federal Home Loan Mortgage Corp.:		
5.0%, 10/1/2035	2,383,295	2,433,381
5.5%, 4/1/2038	8,489,516	8,699,434
6.0%,with various maturities from 8/1/2035 until 3/1/2038	599,352	607,469
Federal National Mortgage Association:		
4.5%,with various maturities from 11/1/2028 until 9/1/2035	1,585,106	1,610,738
5.5%,with various maturities from 2/1/2037 until 4/1/2038	10,828,968	10,923,311
6.0%,with various maturities from 1/1/2024 until 8/1/2037	3,723,261	3,840,987
6.5%,with various maturities from 5/1/2017 until 1/1/2038	103,742	108,022
8.0%, 9/1/2015	119,491	126,892
Total Mortgage-Backed Securities Pass-Throughs (Cost $27,556,072)		**28,350,234**

	Principal Amount ($)(a)	Value ($)
Commercial and Non-Agency Mortgage-Backed Securities 4.6%		
Adjustable Rate Mortgage Trust, "3A31", Series 2005-10, 5.414%***, 1/25/2036	1,000,000	484,222
Bear Stearns Adjustable Rate Mortgage Trust, "12A5", Series 2004-1, 4.565%***, 4/25/2034	1,443,377	883,840
Countrywide Alternative Loan Trust:		
"3A11", Series 2005-20CB, 0.771%***, 7/25/2035	1,075,677	740,674
"A1", Series 2004-1T1, 5.0%, 2/25/2034	337,717	284,482
"1A5", Series 2003-J1, 5.25%, 10/25/2033	379,183	329,186
"4A3", Series 2005-43, 5.67%***, 10/25/2035	636,605	243,474
"A1", Series 2004-35T2, 6.0%, 2/25/2035	379,811	331,574
"3A5", Series 2005-28CB, 6.0%, 8/25/2035	1,774,475	1,307,132
"1A4", Series 2006-43CB, 6.0%, 2/25/2037	995,512	618,878
First Horizon Alternative Mortgage Securities, "1A7", Series 2006-FA8, 6.0%, 2/25/2037	1,631,026	734,360
GS Mortgage Securities Corp. II, "AAB", Series 2006-GG8, 5.535%, 11/10/2039	1,800,000	1,362,765
LB-UBS Commercial Mortgage Trust, "A2", Series 2005-C2, 4.821%, 4/15/2030	127,801	121,350
Structured Adjustable Rate Mortgage Loan Trust:		
"6A3", Series 2005-21, 5.4%, 11/25/2035	900,000	373,509
"1A1", Series 2005-17, 5.701%***, 8/25/2035	1,094,538	727,641
Structured Asset Securities Corp., "4A1", Series 2005-6, 5.0%, 5/25/2035	127,667	107,360
Wachovia Bank Commercial Mortgage Trust:		
"APB", Series 2006-C23, 5.446%, 1/15/2045	2,100,000	1,615,115
"APB", Series 2007-C34, 5.617%, 5/15/2046	2,875,000	2,021,578
Wachovia Mortgage Loan Trust LLC, "1A1", Series 2006-A, 5.581%***, 5/20/2036	2,292,737	1,242,492
Washington Mutual Mortgage Pass-Through Certificates Trust:		
"A6", Series 2004-AR4, 3.792%***, 6/25/2034	190,000	182,419
"1A3", Series 2005-AR16, 5.102%***, 12/25/2035	1,005,000	536,138
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $22,084,515)		**14,248,189**

	Principal Amount ($)(a)	Value ($)
Collateralized Mortgage Obligations 2.4%		
Fannie Mae Whole Loan, "1A1", Series 2004-W15, 6.0%, 8/25/2044	607,751	631,650
Federal Home Loan Mortgage Corp.:		
"OS", Series 3102, Principal Only, Zero Coupon, 1/15/2036	4,337,616	3,646,591
"H", Series 2278, 6.5%, 1/15/2031	17,882	18,504
Government National Mortgage Association, "CK", Series 2007-31, 5.0%, 5/16/2037	3,000,000	3,020,889
Total Collateralized Mortgage Obligations (Cost $6,658,744)		**7,317,634**

	Principal Amount ($)(a)	Value ($)
Loan Participations and Assignments 0.2%		
Senior Loans* **		
Advanced Medical Optics, Inc., Term Loan B, LIBOR plus 1.75%, 3.754%, 4/2/2014	15,528	10,118

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

	Principal Amount ($)(a)	Value ($)
Buffets, Inc.:		
Letter of Credit, LIBOR plus 7.25%, 9.254%, 5/1/2013	26,839	6,750
Term Loan B, LIBOR plus 7.25%, 9.254%, 11/1/2013	136,563	34,346
Term Loan DIP, LIBOR plus 7.25%, 9.254%, 1/22/2009	65,653	16,512
Energy Future Holdings Corp.:		
Term Loan B2, LIBOR plus 3.5%, 5.504%, 10/10/2014	212,675	148,873
Term Loan B3, LIBOR plus 3.5%, 5.504%, 10/10/2014	88,476	61,564
Essar Steel Algoma, Inc., Term Loan B, LIBOR plus 2.5%, 4.504%, 6/30/2013	19,949	12,369
Ford Motor Co., Term Loan B, LIBOR plus 3.0%, 5.004%, 12/16/2013	24,873	10,205
General Nutrition Centers, Inc., Term Loan B, LIBOR plus 2.25%, 4.254%, 9/16/2013	14,849	9,949
Golden Nugget, Term Loan, 3.73%, 6/16/2014	35,000	3,675
Hawker Beechcraft, Inc.:		
Letter of Credit, LIBOR plus 2.0%, 4.004%, 3/26/2014	1,336	701
Term Loan B, LIBOR plus 2.0%, 4.004%, 3/26/2014	22,809	11,965
HCA, Inc., Term Loan A, LIBOR plus 1.5%, 3.504%, 11/17/2012	88,441	75,130
Hexion Specialty Chemicals:		
Term Loan C1, LIBOR plus 2.25%, 4.254%, 5/6/2013	72,654	30,805
Term Loan C2, LIBOR plus 2.25%, 4.254%, 5/6/2013	10,926	4,633
IASIS Healthcare LLC, Term Loan, LIBOR plus 5.25%, 7.254%, 6/15/2014 (PIK)	80,660	46,379
Longview Power LLC:		
Demand Draw, 3.75%, 4/1/2014	26,667	16,667
Letter of Credit, 1.35%, 4/1/2014	13,333	8,333
Term Loan B, 4.25%, 4/1/2014	25,000	15,625
Sabre, Inc., Term Loan B, LIBOR plus 2.0%, 4.004%, 9/30/2014	23,027	10,049
Symbion, Inc.:		
Term Loan A, LIBOR plus 3.25%, 5.254%, 8/23/2013	10,171	6,357
Term Loan B, LIBOR plus 3.25%, 5.254%, 8/23/2014	10,171	6,357
Telesat Canada:		
Delayed Draw Term Loan, LIBOR plus 3.0%, 5.004%, 10/31/2014	6,283	4,307
Term Loan B, LIBOR plus 3.0%, 5.004%, 10/31/2014	73,148	50,143
Tribune Co., Tranche B, LIBOR plus 3.0%, 5.004%, 5/19/2014**	49,152	14,184
Total Loan Participations and Assignments (Cost $1,117,706)		**615,996**

	Principal Amount ($)(a)	Value ($)
Preferred Securities 0.1%		
Financials		
Citigroup, Inc., Series E, 8.4%, 4/30/2018 (c)	35,000	23,110
Farm Credit Bank of Texas, Series 1, 7.561%, 12/15/2013 (c)	218,000	115,570
Xerox Capital Trust I, 8.0%, 2/1/2027	15,000	10,243
Total Preferred Securities (Cost $276,067)		**148,923**
Government & Agency Obligations 6.3%		
US Treasury Obligations		
US Treasury Bill, 0.17%****, 1/15/2009 (d)	3,791,000	3,790,981
US Treasury Bonds:		
4.75%, 2/15/2037	500,000	696,719
8.125%, 8/15/2019	1,000,000	1,477,969
US Treasury Notes:		
2.75%, 10/31/2013 (e)	6,000,000	6,378,750
3.75%, 11/15/2018	4,500,000	5,094,135
4.5%, 11/15/2015	1,500,000	1,778,908
Total Government & Agency Obligations (Cost $18,627,280)		**19,217,462**

	Units	Value ($)
Other Investments 0.0%		
Materials		
Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029 (Cost $116,987)	170,000	**81,600**

	Shares	Value ($)
Exchange Traded Fund 0.3%		
iShares MSCI Japan Index Fund (Cost $943,697)	83,841	**804,874**
Securities Lending Collateral 1.8%		
Daily Assets Fund Institutional, 1.69% (f) (g) (Cost $5,493,750)	5,493,750	**5,493,750**
Cash Equivalents 4.9%		
Cash Management QP Trust, 1.42% (f) (Cost $15,034,729)	15,034,729	**15,034,729**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $355,884,330)†	101.2	**310,728,897**
Other Assets and Liabilities, Net	(1.2)	**(3,562,992)**
Net Assets	100.0	**307,165,905**

* *Non-income producing security.*

** *Non-income producing security. 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:*

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

Securities	Coupon	Maturity Date	Principal Amount		Acquisition Cost ($)	Value ($)
Ashton Woods USA LLC	9.5%	10/1/2015	70,000	USD	63,467	14,000
Congoleum Corp.	8.625%	8/1/2008	190,000	USD	190,156	142,500
Quebecor World, Inc.	9.75%	1/15/2015	25,000	USD	25,000	1,969
Radnor Holdings Corp.	11.0%	3/15/2010	40,000	USD	25,775	50
Tribune Co.	5.004%	5/19/2014	49,152	USD	49,122	14,184
Tropicana Entertainment LLC	9.625%	12/15/2014	75,000	USD	55,245	750
Trump Entertainment Resorts, Inc.	8.5%	6/1/2015	5,000	USD	4,788	663
					413,553	**174,116**

*** *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, 2008.*

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

† *The cost for federal income tax purposes was $362,091,444. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $51,362,547. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $13,170,091 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $64,532,638.*

(a) *Principal amount is stated in US dollars unless otherwise noted.*

(b) *Security has deferred its 6/15/2008 interest payment until 6/30/2009.*

(c) *Date shown is call date; not a maturity date for the perpetual preferred securities.*

(d) *At December 31, 2008, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

(e) *All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2008 amounted to $5,315,625, which is 1.7% of net assets.*

(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. 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

CVA: Certificaten van Aandelen

FDR: Fiduciary Depositary Receipt

LIBOR: Represents the London InterBank Offered Rate.

MSCI: Morgan Stanley Capital International

PIK: Denotes that all or a portion of the income is paid in-kind.

PPS: Price Protected Shares

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgage or mortgage-backed securities.

REG S: Securities sold under Regulation S may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

REIT: Real Estate Investment Trust

RSP: Risparmio (Convertible Savings Shares)

SDR: Swedish Depositary Receipt

Included in the portfolio are investments in mortgage or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp. issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At December 31, 2008, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year Australian Treasury Bond	3/16/2009	43	3,370,020	3,489,513	119,493
10 Year Canadian Government Bond	3/20/2009	44	4,244,640	4,517,975	273,335
2 Year US Treasury Note	3/31/2009	23	4,954,407	5,015,437	61,030
AEX Index	1/16/2009	24	1,650,941	1,643,705	(7,236)
ASX SPI 200 Index	3/19/2009	20	1,244,073	1,305,855	61,782
DAX Index	3/20/2009	2	330,022	336,010	5,988
DJ Euro Stoxx 50 Index	3/20/2009	19	641,782	647,068	5,286
Federal Republic of Germany Euro-Bund	3/6/2009	43	7,435,123	7,461,951	26,828
Federal Republic of Germany Euro-Schatz	3/6/2009	106	15,804,065	15,835,190	31,125
FTSE 100 Index	3/20/2009	1	60,683	63,117	2,434
Hang Seng Stock Index	1/29/2009	5	468,381	464,665	(3,716)
IBEX 35 Index	1/16/2009	1	125,868	126,675	807

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

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
Nikkei 225 Index	3/12/2009	1	43,479	45,700	2,221
Russell 2000 Mini Index	3/20/2009	71	3,336,412	3,535,090	198,678
S&P 500 E Mini Index	3/20/2009	49	2,167,523	2,205,245	37,722
S&P MIB	3/20/2009	4	533,247	539,951	6,704
United Kingdom Long Gilt Bond	3/27/2009	15	2,498,562	2,662,786	164,224
Total net unrealized appreciation					**986,705**

At December 31, 2008, open futures contracts sold were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Depreciation ($)
10 Year Japanese Government Bond	3/11/2009	4	6,148,867	6,182,901	(34,034)
10 Year US Treasury Note	3/20/2009	110	13,411,739	13,832,500	(420,761)
CAC 40 Index	1/16/2009	25	1,117,009	1,119,337	(2,328)
FTSE 100 Index	3/20/2009	6	367,939	378,703	(10,764)
Nasdaq E-Mini 100 Index	3/20/2009	28	669,245	679,000	(9,755)
Russell 2000 Mini Index	3/20/2009	9	409,614	448,110	(38,496)
S&P 500 E Mini Index	3/20/2009	14	610,577	630,070	(19,493)
S&P TSE 60 Index	3/19/2009	5	414,843	437,343	(22,500)
TOPIX Index	3/13/2009	28	2,505,946	2,662,548	(156,602)
Total unrealized depreciation					**(714,733)**

At December 31, 2008, open credit default swap contract purchased was as follows:

Effective/ Expiration Dates	Notional Amount ($)	Fixed Cash Flows Paid	Underlying Debt Obligation/Quality Rating (i)	Value ($)	Upfront Premiums Paid/ (Received) ($)	Unrealized Appreciation/ ($)
5/2/2008 6/20/2013	25,000[1]	7.25%	ARCO Chemical Co., 9/8%, 2/1/2020, D	18,061	—	**18,061**

At December 31, 2008, open credit default swap contracts sold were as follows:

Effective/ Expiration Dates	Notional Amount ($) (h)	Fixed Cash Flows Received	Underlying Debt Obligation/Quality Rating (i)	Value ($)	Upfront Premiums Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
2/14/2008 3/20/2009	35,000[1]	3.8%	HCA, Inc. 6.375%, 1/15/2015, B–	(107)	—	(107)
2/26/2008 3/20/2009	25,000[1]	5.0%	Tenet Healthcare Corp., 7.375%, 2/1/2013, B	51	—	51
Total net unrealized depreciation						**(56)**

(h) *The maximum potential amount of future undiscounted payments that the Portfolio could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Portfolio for the same referenced debt obligation.*

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

Counterparty:

1 *Merrill Lynch, Pierce, Fenner & Smith, Inc.*

At December 31, 2008, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
EUR	84,700	USD	121,817	1/15/2009	4,161
GBP	4,812,000	USD	7,047,174	1/21/2009	132,931
USD	5,319,009	EUR	4,221,000	1/21/2009	542,654
USD	3,214,521	CHF	3,896,000	1/21/2009	446,796
USD	204,580	NZD	386,000	1/21/2009	20,214
USD	4,951,817	SEK	41,417,000	1/21/2009	283,369
USD	8,703,630	SGD	13,282,000	1/21/2009	508,466
Total unrealized appreciation					**1,938,591**

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
USD	15,965	JPY	1,440,000	1/6/2009	(77)
AUD	604,000	USD	388,438	1/21/2009	(31,646)
CAD	1,427,000	USD	1,131,462	1/21/2009	(24,052)
JPY	360,226,000	USD	3,898,550	1/21/2009	(77,015)
NOK	34,773,000	USD	4,825,897	1/21/2009	(131,932)
Total unrealized depreciation					**(264,722)**

Currency Abbreviations

AUD	Australian Dollar	GBP	British Pound	SEK	Swedish Krona
CAD	Canadian Dollar	JPY	Japanese Yen	SGD	Singapore Dollar
CHF	Swiss Franc	NOK	Norwegian Krone	USD	United States Dollar
EUR	Euro	NZD	New Zealand Dollar		

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the tables below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities	Other Financial Instruments††
Level 1	$ 151,137,200	$ 271,972
Level 2	159,428,604	1,691,874
Level 3	163,093	—
Total	**$ 310,728,897**	**$ 1,963,846**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as futures contracts, forward foreign currency exchange contracts and swap contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

The following is a reconciliation of the Portfolio's Level 3 investments for which significant unobservable inputs were used in determining value at December 31, 2008:

	Investments in Securities
Balance as of January 1, 2008	$ 109,579
Total realized gain (loss)	(3,540)
Change in unrealized appreciation (depreciation)	(230,402)
Amortization Premium/Discount	698
Net purchases (sales)	(43,324)
Net transfers in (out) of Level 3	330,082
Balance as of December 31, 2008	**$ 163,093**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investments in securities, at value (cost $335,355,851) — including $5,315,625 of securities loaned	$ 290,200,418
Investment in Daily Assets Fund Institutional (cost $5,493,750)*	5,493,750
Investment in Cash Management QP Trust (cost $15,034,729)	15,034,729
Total investments, at value (cost $355,884,330)	310,728,897
Cash	117,254
Foreign currency, at value (cost $161,792)	165,282
Deposits with broker for open futures contracts	23,425
Receivable for investments sold	4,039,636
Dividends receivable	321,151
Interest receivable	937,710
Foreign taxes recoverable	25,834
Receivable for Portfolio shares sold	11,501
Receivable for variation margin on open futures contracts	463,472
Unrealized appreciation on forward foreign currency exchange contracts	1,938,591
Unrealized appreciation on credit default swap contracts	18,112
Other assets	11,030
Total assets	318,801,895

Liabilities	
Payable upon return of securities loaned	5,493,750
Payable for investments purchased	4,803,569
Payable for Portfolio shares redeemed	583,221
Payable for closed credit default swap contracts	3,926
Unrealized depreciation on forward foreign currency exchange contracts	264,722
Unrealized depreciation on credit default swap contracts	107
Accrued management fee	104,307
Other accrued expenses and payables	382,388
Total liabilities	11,635,990
Net assets, at value	**$ 307,165,905**

Net Assets Consist of	
Undistributed net investment income	10,418,830
Net unrealized appreciation (depreciation) on:	
Investments	(45,155,433)
Futures	271,972
Credit default swap contracts	18,005
Foreign currency	1,675,785
Accumulated net realized gain (loss)	(50,973,947)
Paid-in capital	390,910,693
Net assets, at value	**$ 307,165,905**
Class A	
Net Asset Value, offering and redemption price per share ($307,119,228 ÷ 17,697,143 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 17.35**
Class B	
Net Asset Value, offering and redemption price per share ($46,677 ÷ 2,694 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 17.33**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $158,065)	$ 5,590,844
Interest	8,359,778
Interest — Cash Management QP Trust	848,791
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	90,758
Total Income	14,890,171
Expenses:	
Management fee	1,716,044
Administration fee	267,755
Custodian fee	332,641
Services to shareholders	420
Distribution service fee (Class B)	5,567
Record keeping fees (Class B)	2,124
Professional fees	136,591
Trustees' fees and expenses	51,947
Reports to shareholders and shareholder meeting	150,922
Other	87,880
Total expenses before expense reductions	2,751,891
Expense reductions	(77,536)
Total expenses after expense reductions	2,674,355
Net investment income (loss)	**12,215,816**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(42,865,467)
Futures	(631,031)
Credit default swap contracts	(119,513)
Foreign currency	(3,763,540)
Payments by affiliates (see Note I)	11,599
	(47,367,952)
Change in net unrealized appreciation (depreciation) on:	
Investments	(94,917,429)
Futures	(373,384)
Credit default swap contracts	23,823
Unfunded loan commitments	545
Foreign currency	1,568,924
	(93,697,521)
Net gain (loss)	**(141,065,473)**
Net increase (decrease) in net assets resulting from operations	**$ (128,849,657)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 12,215,816	$ 17,503,276
Net realized gain (loss)	(47,367,952)	51,427,436
Change in net unrealized appreciation (depreciation)	(93,697,521)	(39,914,299)
Net increase (decrease) in net assets resulting from operations	(128,849,657)	29,016,413
Distributions to shareholders from:		
Net investment income:		
Class A	(17,655,048)	(18,973,533)
Class B	(219,769)	(849,365)
Total distributions	(17,874,817)	(19,822,898)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	13,590,722	13,218,397
Reinvestment of distributions	17,655,048	18,973,533
Cost of shares redeemed	(105,746,417)	(113,345,811)
Net increase (decrease) in net assets from Class A share transactions	(74,500,647)	(81,153,881)
Class B		
Proceeds from shares sold	106,733	575,499
Reinvestment of distributions	219,769	849,365
Cost of shares redeemed	(7,155,899)	(25,041,162)
Net increase (decrease) in net assets from Class B share transactions	(6,829,397)	(23,616,298)
Increase (decrease) in net assets	(228,054,518)	(95,576,664)
Net assets at beginning of period	535,220,423	630,797,087
Net assets at end of period (including undistributed net investment income of $10,418,830 and $17,895,386, respectively)	**$ 307,165,905**	**$ 535,220,423**

Other Information	2008	2007
Class A		
Shares outstanding at beginning of period	21,278,440	24,544,133
Shares sold	607,834	536,248
Shares issued to shareholders in reinvestment of distributions	782,235	792,545
Shares redeemed	(4,971,366)	(4,594,486)
Net increase (decrease) in Class A shares	(3,581,297)	(3,265,693)
Shares outstanding at end of period	**17,697,143**	**21,278,440**
Class B		
Shares outstanding at beginning of period	293,818	1,244,941
Shares sold	4,568	23,371
Shares issued to shareholders in reinvestment of distributions	9,716	35,405
Shares redeemed	(305,408)	(1,009,899)
Net increase (decrease) in Class B shares	(291,124)	(951,123)
Shares outstanding at end of period	**2,694**	**293,818**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$24.81**	**$24.46**	**$22.75**	**$22.37**	**$21.32**
Income (loss) from investment operations:					
Net investment income[a]	.61	.74	.69[c]	.59	.47
Net realized and unrealized gain (loss)	(7.20)	.42	1.60	.34	.93
Total from investment operations	(6.59)	1.16	2.29	.93	1.40
Less distributions from:					
Net investment income	(.87)	(.81)	(.58)	(.55)	(.35)
Net asset value, end of period	**$17.35**	**$24.81**	**$24.46**	**$22.75**	**$22.37**
Total Return (%)	(27.33)[b]	4.84[b]	10.24[b,c]	4.30[b]	6.64
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	307	528	600	653	622
Ratio of expenses before expense reductions (%)	.64	.52	.55	.55	.59
Ratio of expenses after expense reductions (%)	.62	.51	.51	.53	.59
Ratio of net investment income (%)	2.83	3.00	2.99[c]	2.66	2.18
Portfolio turnover rate (%)	263	199	108	122	140

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 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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$24.78**	**$24.43**	**$22.72**	**$22.33**	**$21.28**
Income (loss) from investment operations:					
Net investment income[a]	.53	.65	.60[c]	.51	.39
Net realized and unrealized gain (loss)	(7.20)	.41	1.60	.35	.92
Total from investment operations	(6.67)	1.06	2.20	.86	1.31
Less distributions from:					
Net investment income	(.78)	(.71)	(.49)	(.47)	(.26)
Net asset value, end of period	**$17.33**	**$24.78**	**$24.43**	**$22.72**	**$22.33**
Total Return (%)	(27.65)[b]	4.43[b]	9.82[b,c]	3.90[b]	6.26
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.05	7	30	34	33
Ratio of expenses before expense reductions (%)	.96	.89	.93	.95	.97
Ratio of expenses after expense reductions (%)	.93	.88	.89	.91	.97
Ratio of net investment income (%)	2.52	2.63	2.61[c]	2.28	1.80
Portfolio turnover rate (%)	263	199	108	122	140

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 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, 2008

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.

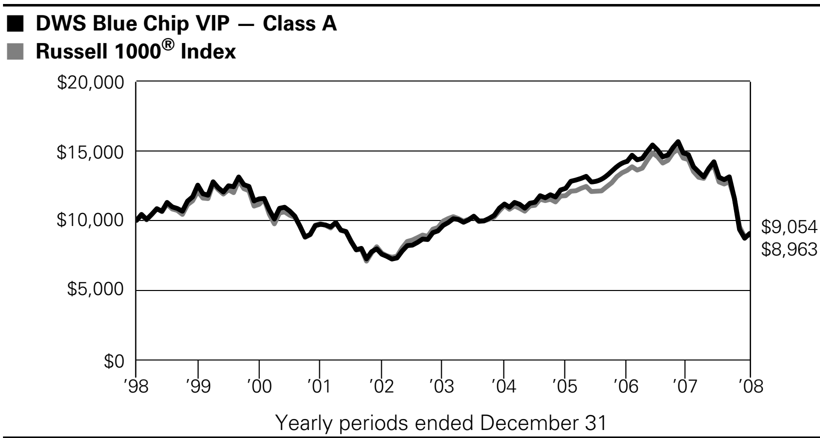
The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.71% and 0.96% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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.

Portfolio returns shown during 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 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	$6,151	$7,362	$9,402	$9,054
	Average annual total return	–38.49%	–9.71%	–1.23%	–.99%
Russell 1000 Index	Growth of $10,000	$6,240	$7,621	$9,022	$8,963
	Average annual total return	–37.60%	–8.66%	–2.04%	–1.09%

DWS Blue Chip VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$6,152	$7,310	9,264	$10,681
	Average annual total return	–38.48%	–9.92%	–1.52%	1.02%
Russell 1000 Index	Growth of $10,000	$6,240	$7,621	$9,022	$10,532
	Average annual total return	–37.60%	–8.66%	–2.04%	.80%

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. 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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 691.80	$ 693.40
Expenses Paid per $1,000*	$ 3.27	$ 5.02
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,021.27	$1,019.20
Expenses Paid per $1,000*	$ 3.91	$ 5.99

* *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 366.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Blue Chip VIP	.77%	1.18%

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

The year just ended was the worst in many decades for the US equity markets. Essentially all equity indices posted negative returns for this period, as markets reflected economic problems including a housing slump, rising unemployment, a crisis of confidence and an extreme credit crunch. The Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, had a return of –37.31% for the 12 months ended December 31, 2008. With a return of –38.49% (Class A shares, unadjusted for contract charges), the Portfolio's return was in line with that of its benchmark, the Russell 1000® Index, which posted a return of –37.60%.

The major contributors to the Portfolio's performance were underweights and stock selection in the financials and consumer discretionary sectors.[1] In the financials sector, the Portfolio's performance benefited from not owning many of the worst-performing stocks. In the consumer discretionary sector, performance benefited from overweight positions in The DIRECTV Group, Inc., AutoZone, Inc. and McDonald's Corp.

The major detractors from the Portfolio's performance relative to its benchmark were stock selection in the energy and materials sectors. In the energy sector, performance was hurt by an underweight position in ExxonMobil Corp., which was down less than the sector, and by overweights in coal producers Walter Industries, Inc. and Massey Energy Co. In the materials sector, overweight positions in Terra Industries, Inc. and CF Industries Holdings, Inc., both of which produce fertilizer and other agricultural products, detracted from performance.

Robert Wang, Julie Abbett and James B. Francis, CFA
Portfolio Managers, Deutsche Investment Management Americas Inc.

The Russell 3000 Index is an unmanaged index that 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 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 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.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Blue Chip VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	99%	97%
Government & Agency Obligation	1%	—
Cash Equivalents	—	3%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Health Care	17%	14%
Information Technology	16%	15%
Industrials	14%	13%
Consumer Staples	13%	9%
Energy	11%	14%
Financials	11%	15%
Consumer Discretionary	10%	11%
Telecommunication Services	4%	4%
Materials	2%	3%
Utilities	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 35. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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, 2008

DWS Blue Chip VIP

	Shares	Value ($)
Common Stocks 99.1%		
Consumer Discretionary 9.8%		
Auto Components 0.1%		
Autoliv, Inc.	3,100	66,526
Lear Corp.*	22,900	32,289
		98,815
Hotels Restaurants & Leisure 1.8%		
McDonald's Corp.	22,300	1,386,837
Yum! Brands, Inc.	15,200	478,800
		1,865,637
Household Durables 0.3%		
Leggett & Platt, Inc.	17,800	**270,382**
Internet & Catalog Retail 0.3%		
Amazon.com, Inc.*	6,600	**338,448**
Leisure Equipment & Products 0.2%		
Hasbro, Inc.	7,900	**230,443**
Media 3.6%		
Comcast Corp. "A"	103,700	1,750,456
Comcast Corp., Special "A"	27,600	445,740
DISH Network Corp. "A"*	19,900	220,691
Liberty Media Corp. — Entertainment "A"*	8,100	141,588
The DIRECTV Group, Inc.*	57,600	1,319,616
		3,878,091
Specialty Retail 3.4%		
AutoZone, Inc.*	6,900	962,343
Best Buy Co., Inc.	31,000	871,410
Children's Place Retail Stores, Inc.*	3,100	67,208
RadioShack Corp.	30,400	362,976
Rent-A-Center, Inc.*	6,700	118,255
The Gap, Inc.	33,800	452,582
TJX Companies, Inc.	39,700	816,629
		3,651,403
Textiles, Apparel & Luxury Goods 0.1%		
Quiksilver, Inc.*	18,100	33,304
Wolverine World Wide, Inc.	3,200	67,328
		100,632
Consumer Staples 12.9%		
Beverages 1.5%		
Pepsi Bottling Group, Inc.	10,300	231,853
PepsiCo, Inc.	24,700	1,352,819
		1,584,672
Food & Staples Retailing 4.0%		
Kroger Co.	55,700	1,471,037
Pantry, Inc.*	1,600	34,320
Sysco Corp.	14,100	323,454
Wal-Mart Stores, Inc. (a)	44,000	2,466,640
		4,295,451
Food Products 1.7%		
Archer-Daniels-Midland Co.	7,600	219,108
Bunge Ltd. (a)	5,500	284,735
Chiquita Brands International, Inc.*	15,000	221,700
Darling International, Inc.*	10,400	57,096
Fresh Del Monte Produce, Inc.*	11,100	248,862
General Mills, Inc.	12,000	729,000
		1,760,501
Household Products 3.6%		
Church & Dwight Co., Inc.	1,900	106,628
Colgate-Palmolive Co.	30,900	2,117,886
Procter & Gamble Co.	26,500	1,638,230
		3,862,744
Personal Products 0.2%		
Herbalife Ltd.	8,700	**188,616**
Tobacco 1.9%		
Altria Group, Inc.	57,000	858,420
Philip Morris International, Inc.	27,900	1,213,929
		2,072,349
Energy 11.4%		
Oil, Gas & Consumable Fuels		
Alpha Natural Resources, Inc.*	12,100	195,899
Apache Corp.	26,500	1,975,045
Arch Coal, Inc.	20,500	333,945
Chevron Corp.	11,000	813,670
Cimarex Energy Co.	18,700	500,786
ConocoPhillips	5,300	274,540
Encore Acquisition Co.*	23,900	609,928
ExxonMobil Corp.	8,740	697,714
Frontline Ltd. (a)	30,800	911,988
Hess Corp.	31,200	1,673,568
Mariner Energy, Inc.*	25,300	258,060
Massey Energy Co.	27,600	380,604
McMoRan Exploration Co.* (a)	31,000	303,800
Occidental Petroleum Corp.	35,400	2,123,646
W&T Offshore, Inc.	20,100	287,832
Walter Industries, Inc.	44,900	786,199
		12,127,224
Financials 11.3%		
Capital Markets 2.3%		
Bank of New York Mellon Corp.	63,200	1,790,456
State Street Corp.	18,200	715,806
		2,506,262
Commercial Banks 2.1%		
Banco Itau Holding Financeira SA (ADR) (Preferred)	27,500	319,000
Unibanco — Uniao de Bancos Brasileiros SA (GDR)	6,900	445,878
Wells Fargo & Co.	50,600	1,491,688
		2,256,566
Consumer Finance 0.1%		
Cash America International, Inc.	2,600	**71,110**
Diversified Financial Services 2.3%		
JPMorgan Chase & Co.	77,600	**2,446,728**
Insurance 4.0%		
ACE Ltd.	36,300	1,920,996
Aflac, Inc.	6,300	288,792
Allied World Assurance Co. Holdings Ltd.	2,500	101,500
Aon Corp.	8,100	370,008
Arch Capital Group Ltd.*	1,200	84,120
Arthur J. Gallagher & Co.	2,900	75,139
Assurant, Inc.	4,100	123,000
Berkshire Hathaway, Inc. "B"*	200	642,800
The Travelers Companies, Inc.	7,600	343,520

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

	Shares	Value ($)
Unum Group	5,100	94,860
XL Capital Ltd. "A" (a)	57,700	213,490
		4,258,225
Real Estate Investment Trusts 0.5%		
Boston Properties, Inc. (REIT)	1,800	99,000
Essex Property Trust, Inc. (REIT)	2,100	161,175
Rayonier, Inc. (REIT)	4,200	131,670
Simon Property Group, Inc. (REIT)	1,900	100,947
		492,792
Health Care 16.5%		
Biotechnology 2.7%		
Amgen, Inc.*	2,500	144,375
Gilead Sciences, Inc.*	40,300	2,060,942
OSI Pharmaceuticals, Inc.*	17,800	695,090
		2,900,407
Health Care Equipment & Supplies 2.9%		
Baxter International, Inc.	29,600	1,586,264
Becton, Dickinson & Co.	16,000	1,094,240
Covidien Ltd.	6,800	246,432
Kinetic Concepts, Inc.*	2,900	55,622
Varian Medical Systems, Inc.*	1,500	52,560
		3,035,118
Health Care Providers & Services 4.6%		
Aetna, Inc.	60,200	1,715,700
Express Scripts, Inc.*	27,600	1,517,448
Humana, Inc.*	15,100	562,928
Kindred Healthcare, Inc.*	6,100	79,422
Magellan Health Services, Inc.*	800	31,328
Medco Health Solutions, Inc.*	23,100	968,121
Universal Health Services, Inc. "B"	1,800	67,626
		4,942,573
Pharmaceuticals 6.3%		
Abbott Laboratories	14,900	795,213
Eli Lilly & Co.	48,500	1,953,095
Johnson & Johnson	13,200	789,756
Merck & Co., Inc.	28,200	857,280
Perrigo Co.	1,300	42,003
Pfizer, Inc.	32,400	573,804
Schering-Plough Corp.	81,800	1,393,054
Sepracor, Inc.*	7,700	84,546
Teva Pharmaceutical Industries Ltd. (ADR)	3,900	166,023
		6,654,774
Industrials 13.5%		
Aerospace & Defense 3.4%		
General Dynamics Corp.	11,200	645,008
Goodrich Corp.	11,200	414,624
Honeywell International, Inc.	46,800	1,536,444
L-3 Communications Holdings, Inc.	7,300	538,594
Lockheed Martin Corp.	2,900	243,832
Northrop Grumman Corp.	5,800	261,232
Spirit AeroSystems Holdings, Inc. "A"*	4,200	42,714
		3,682,448
Commercial Services & Supplies 0.3%		
The Brink's Co.	11,700	**314,496**
Construction & Engineering 1.6%		
Chicago Bridge & Iron Co. NV (NY Registered Shares)	3,400	34,170
EMCOR Group, Inc.*	18,500	414,955
Fluor Corp.	12,900	578,823
Foster Wheeler Ltd.*	17,300	404,474
Perini Corp.*	10,700	250,166
		1,682,588
Electrical Equipment 1.1%		
Acuity Brands, Inc.	1,500	52,365
Energy Conversion Devices, Inc.*	13,300	335,293
GrafTech International Ltd.*	87,000	723,840
Woodward Governor Co.	2,400	55,248
		1,166,746
Industrial Conglomerates 0.1%		
General Electric Co.	6,200	**100,440**
Machinery 4.3%		
AGCO Corp.*	26,400	622,776
Caterpillar, Inc.	27,800	1,241,826
CNH Global NV	4,000	62,400
Cummins, Inc.	23,900	638,847
Dover Corp.	2,500	82,300
Flowserve Corp.	7,300	375,950
Gardner Denver, Inc.*	1,700	39,678
Joy Global, Inc.	11,000	251,790
Parker Hannifin Corp.	27,600	1,174,104
Trinity Industries, Inc.	6,200	97,712
		4,587,383
Road & Rail 2.7%		
Burlington Northern Santa Fe Corp.	14,500	1,097,795
Norfolk Southern Corp.	16,900	795,145
Ryder System, Inc.	25,400	985,012
		2,877,952
Information Technology 15.5%		
Communications Equipment 0.3%		
Cisco Systems, Inc.*	20,900	**340,670**
Computers & Peripherals 6.7%		
Hewlett-Packard Co.	61,900	2,246,351
International Business Machines Corp.	27,600	2,322,816
Lexmark International, Inc. "A"*	32,700	879,630
QLogic Corp.*	43,000	577,920
Western Digital Corp.*	93,200	1,067,140
		7,093,857
Electronic Equipment, Instruments & Components 0.4%		
Dolby Laboratories, Inc. "A"* (a)	3,600	117,936
Jabil Circuit, Inc.	43,100	290,925
		408,861
Internet Software & Services 1.5%		
eBay, Inc.*	18,600	259,656
Google, Inc. "A"*	4,000	1,230,600
Yahoo!, Inc.*	4,700	57,340
		1,547,596
IT Services 3.6%		
Accenture Ltd. "A"	32,200	1,055,838
Automatic Data Processing, Inc.	26,900	1,058,246
Computer Sciences Corp.*	21,400	751,996
Visa, Inc. "A"	18,100	949,345
		3,815,425
Software 3.0%		
Microsoft Corp.	157,300	3,057,912
Symantec Corp.*	13,800	186,576
		3,244,488

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

	Shares	Value ($)
Materials 2.4%		
Chemicals		
CF Industries Holdings, Inc.	22,200	1,091,352
Terra Industries, Inc.	82,000	1,366,940
The Mosaic Co.	2,800	96,880
		2,555,172
Telecommunication Services 4.0%		
Diversified Telecommunication Services		
AT&T, Inc.	46,700	1,330,950
Embarq Corp.	24,000	863,040
Verizon Communications, Inc.	59,400	2,013,660
		4,207,650
Utilities 1.8%		
Electric Utilities 0.6%		
Duke Energy Corp.	3,000	45,030
Edison International	9,300	298,716
Hawaiian Electric Industries, Inc.	1,300	28,782
Pepco Holdings, Inc.	5,700	101,232
Portland General Electric Co.	1,700	33,099
Southern Co.	4,300	159,100
		665,959
Gas Utilities 0.3%		
Atmos Energy Corp.	1,800	42,660
ONEOK, Inc.	7,300	212,576
UGI Corp.	1,500	36,630
		291,866
Independent Power Producers & Energy Traders 0.4%		
AES Corp.*	51,400	**423,536**
Multi-Utilities 0.5%		
Dominion Resources, Inc.	8,500	304,640
Integrys Energy Group, Inc.	1,400	60,172
Sempra Energy	3,000	127,891
TECO Energy, Inc.	2,400	29,640
		522,343
Total Common Stocks (Cost $137,138,756)		**105,419,439**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.5%		
US Treasury Obligation		
US Treasury Bill, 0.17%**, 1/15/2009 (b) (Cost $508,951)	509,000	**508,997**

	Shares	Value ($)
Securities Lending Collateral 3.7%		
Daily Assets Fund Institutional, 1.69% (c) (d) (Cost $3,998,652)	3,998,652	**3,998,652**
Cash Equivalents 0.4%		
Cash Management QP Trust, 1.42% (c) (Cost $391,004)	391,004	**391,004**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $142,037,363)†	103.7	**110,318,092**
Other Assets and Liabilities, Net	(3.7)	**(3,950,560)**
Net Assets	100.0	**106,367,532**

* *Non-income producing security.*

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

† *The cost for federal income tax purposes was $145,284,545. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $34,966,453. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,176,823 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $39,143,276.*

(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, 2008 amounted to $3,967,514, which is 3.7% of net assets.*

(b) *At December 31, 2008, 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

GDR: Global Depositary Receipt

REIT: Real Estate Investment Trust

At December 31, 2008, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation ($)
S&P 500 Index	3/20/2009	18	796,812	810,090	**13,278**

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities	Other Financial Instruments††
Level 1	$ 109,418,091	$ 13,278
Level 2	900,001	—
Level 3	—	—
Total	**$ 110,318,092**	**$ 13,278**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as future contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $137,647,707 — including $3,967,514 of securities loaned)	$	105,928,436
Investment in Daily Assets Fund Institutional (cost $3,998,652)*		3,998,652
Investment in Cash Management QP Trust (cost $391,004)		391,004
Total investments, at value (cost $142,037,363)		110,318,092
Foreign currency, at value (cost $2,166)		1,799
Dividends receivable		166,218
Interest receivable		7,465
Receivable for Portfolio shares sold		138,879
Receivable for daily variation margin on open futures contracts		15,886
Other assets		4,951
Total assets		110,653,290

Liabilities		
Payable for Portfolio shares redeemed		130,960
Payable upon return of securities loaned		3,998,652
Accrued management fee		44,971
Other accrued expenses and payables		111,175
Total liabilities		4,285,758
Net assets, at value	**$**	**106,367,532**

Net Assets Consist of		
Undistributed net investment income		1,989,745
Net unrealized appreciation (depreciation) on:		
Investments		(31,719,271)
Futures		13,278
Foreign currency		(367)
Accumulated net realized gain (loss)		(42,126,808)
Paid-in capital		178,210,955
Net assets, at value	**$**	**106,367,532**
Class A **Net Asset Value,** offering and redemption price per share ($106,234,053 ÷ 14,644,836 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.25**
Class B **Net Asset Value,** offering and redemption price per share ($133,479 ÷ 18,379 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.26**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $6,442)	$	3,198,442
Interest		11,205
Interest — Cash Management QP Trust		112,527
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		47,234
Total Income		3,369,408
Expenses:		
Management fee		1,059,617
Administration fee		105,793
Custodian fee		21,180
Distribution service fee (Class B)		8,244
Record keeping fees (Class B)		4,171
Services to shareholders		611
Professional fees		68,734
Trustees' fees and expenses		22,463
Reports to shareholders and shareholder meeting		83,035
Other		11,869
Total expenses before expense reductions		1,385,717
Expense reductions		(11,238)
Total expenses after expense reductions		1,374,479
Net investment income (loss)		**1,994,929**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(34,670,300)
Futures		(1,922,293)
Foreign currency		173
		(36,592,420)
Change in net unrealized appreciation (depreciation) on:		
Investments		(46,235,581)
Futures		29,101
Foreign currency		(379)
		(46,206,859)
Net gain (loss)		**(82,799,279)**
Net increase (decrease) in net assets resulting from operations	**$**	**(80,804,350)**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Year Ended December 31, 2008	2007
Operations:		
Net investment income (loss)	$ 1,994,929	$ 3,464,188
Net realized gain (loss)	(36,592,420)	33,055,813
Change in net unrealized appreciation (depreciation)	(46,206,859)	(21,646,324)
Net increase (decrease) in net assets resulting from operations	(80,804,350)	14,873,677
Distributions to shareholders from:		
Net investment income:		
Class A	(3,297,531)	(3,290,254)
Class B	(117,139)	(315,334)
Net realized gain:		
Class A	(35,917,893)	(34,899,465)
Class B	(1,664,515)	(5,204,548)
Total distributions	(40,997,078)	(43,709,601)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	5,194,608	16,482,598
Reinvestment of distributions	39,215,424	38,189,719
Cost of shares redeemed	(60,894,125)	(100,561,920)
Net increase (decrease) in net assets from Class A share transactions	(16,484,093)	(45,889,603)
Class B		
Proceeds from shares sold	238,193	5,401,154
Reinvestment of distributions	1,781,654	5,519,882
Cost of shares redeemed	(10,423,558)	(42,573,159)
Net increase (decrease) in net assets from Class B share transactions	(8,403,711)	(31,652,123)
Increase (decrease) in net assets	(146,689,232)	(106,377,650)
Net assets at beginning of period	253,056,764	359,434,414
Net assets at end of period (including undistributed net investment income of $1,989,745 and $3,469,179, respectively)	**$ 106,367,532**	**$ 253,056,764**

Other Information		
Class A		
Shares outstanding at beginning of period	16,515,920	19,412,716
Shares sold	519,469	1,075,933
Shares issued to shareholders in reinvestment of distributions	3,731,248	2,657,601
Shares redeemed	(6,121,801)	(6,630,330)
Net increase (decrease) in Class A shares	(1,871,084)	(2,896,796)
Shares outstanding at end of period	**14,644,836**	**16,515,920**
Class B		
Shares outstanding at beginning of period	755,480	2,824,828
Shares sold	18,580	372,774
Shares issued to shareholders in reinvestment of distributions	169,520	384,392
Shares redeemed	(925,201)	(2,826,514)
Net increase (decrease) in Class B shares	(737,101)	(2,069,348)
Shares outstanding at end of period	**18,379**	**755,480**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.65**	**$16.17**	**$14.88**	**$13.65**	**$11.84**
Income (loss) from investment operations:					
Net investment income[a]	.12	.17	.17[c]	.14	.13
Net realized and unrealized gain (loss)	(4.97)	.36	2.07	1.22	1.76
Total from investment operations	(4.85)	.53	2.24	1.36	1.89
Less distributions from:					
Net investment income	(.21)	(.18)	(.14)	(.13)	(.08)
Net realized gains	(2.34)	(1.87)	(.81)	—	—
Total distributions	(2.55)	(2.05)	(.95)	(.13)	(.08)
Net asset value, end of period	**$ 7.25**	**$14.65**	**$16.17**	**$14.88**	**$13.65**
Total Return (%)	(38.49)[b]	3.50	15.65[c]	10.06	16.04
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	106	242	314	294	283
Ratio of expenses before expense reductions (%)	.76	.71	.71	.70	.70
Ratio of expenses after expense reductions (%)	.76	.71	.71	.70	.70
Ratio of net investment income (%)	1.12	1.13	1.12[c]	1.00	1.08
Portfolio turnover rate (%)	127	275	226	288	249

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 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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.61**	**$16.12**	**$14.83**	**$13.60**	**$11.80**
Income (loss) from investment operations:					
Net investment income[a]	.04	.11	.11[c]	.09	.09
Net realized and unrealized gain (loss)	(4.89)	.36	2.07	1.22	1.74
Total from investment operations	(4.85)	.47	2.18	1.31	1.83
Less distributions from:					
Net investment income	(.16)	(.11)	(.08)	(.08)	(.03)
Net realized gains	(2.34)	(1.87)	(.81)	—	—
Total distributions	(2.50)	(1.98)	(.89)	(.08)	(.03)
Net asset value, end of period	**$ 7.26**	**$14.61**	**$16.12**	**$14.83**	**$13.60**
Total Return (%)	(38.48)[b]	3.15	15.19[c]	9.68	15.55
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.13	11	46	44	37
Ratio of expenses before expense reductions (%)	1.22	1.09	1.09	1.09	1.08
Ratio of expenses after expense reductions (%)	1.21	1.09	1.09	1.09	1.08
Ratio of net investment income (%)	.67	.75	.74[c]	.61	.70
Portfolio turnover rate (%)	127	275	226	288	249

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 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.

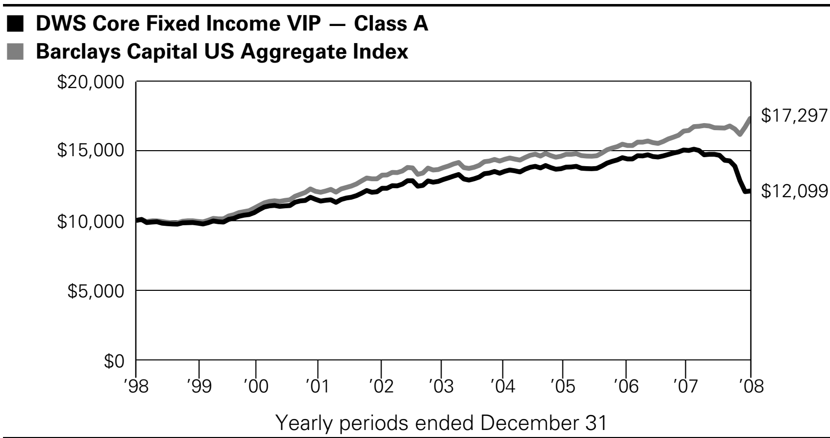
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.66% and 0.91% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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. 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 risks, 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.

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 Core Fixed Income VIP



The Barclays Capital US Aggregate Index (name changed from Lehman Brothers US Aggregate Index, effective November 3, 2008) 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	$8,067	$8,762	$9,364	$12,099
	Average annual total return	–19.33%	–4.31%	–1.31%	1.92%
Barclays Capital US Aggregate Index	Growth of $10,000	$10,524	$11,745	$12,552	$17,297
	Average annual total return	5.24%	5.51%	4.65%	5.63%

DWS Core Fixed Income VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$8,029	$8,654	$9,176	$10,121
	Average annual total return	–19.71%	–4.70%	–1.70%	.18%
Barclays Capital US Aggregate Index	Growth of $10,000	$10,524	$11,745	$12,552	$13,881
	Average annual total return	5.24%	5.51%	4.65%	5.17%

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. 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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 825.60	$ 823.70
Expenses Paid per $1,000*	$ 3.07	$ 4.91

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,021.77	$1,019.76
Expenses Paid per $1,000*	$ 3.40	$ 5.43

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Core Fixed Income VIP	.67%	1.07%

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

Entering the year, banks were pulling back financing from the markets as they were forced to come to terms with losses related to the subprime mortgage crisis that had emerged in the summer of 2007. As 2008 progressed, ongoing fallout from the collapse in housing and mortgages led to the failure, forced merger or government bailout of a number of leading global financial institutions in both the US and Europe. The result was further tightening of credit that caused global economic growth to pull back sharply during the fourth quarter. Given this backdrop, investors' risk tolerance approached zero and liquidity all but evaporated. What ensued was a frantic "flight to quality" into the safe haven of US Treasuries and underperformance for all other segments of the bond market. As investor risk aversion peaked in October and November, even AAA-rated mortgage-backed issues experienced a collapse in demand.[1] Over the 12-month period, the US Federal Reserve Board (the Fed) cut the benchmark federal funds rate (the overnight rate charged by banks when they borrow money from each other) from 4.25% to basically zero as it sought to provide market participants with liquidity, and Treasury yields fell dramatically.

During the 12-month period ended December 31, 2008, the Portfolio provided a total return of –19.33% (Class A shares, unadjusted for contract charges) compared with the 5.24% return of its benchmark, the Barclays Capital US Aggregate Index.

The portfolio's underperformance versus the benchmark is the result of our focus on fixed-income sectors that trade at a yield spread to Treasuries.[2] The positive return of the benchmark is the result of extraordinary Treasury performance driven by the unprecedented flight to quality, and masks steep declines in other, credit-sensitive segments of the bond market. In particular, our holdings of commercial mortgage-backed securities and non-agency residential mortgage-backed securities suffered historically poor performance, especially late in the year. Entering 2009, yield spreads are at all-time highs in many sectors. We have repositioned the Portfolio to maximize the potential upside when the credit cycle ultimately turns for the better. This has meant selling the Portfolio's below-AAA-rated positions in favor of AAA-rated securities that are structured to provide a significant degree of protection against rising defaults. We believe the rapid deterioration in the outlook and pricing of AAA-rated bonds toward the end of the year has made this positioning very attractive at this time.

The following portfolio managers were responsible for the day-to-day management of the Portfolio for the period covered by this report.

Gary W. Bartlett, CFA	J. Christopher Gagnier	Daniel R. Taylor, CFA
Warren S. Davis, III	William T. Lissenden	Timothy C. Vile, CFA

Portfolio Managers, Aberdeen Asset Management Inc., Subadvisor to the Portfolio

Effective on or about February 27, 2009, Deutsche Investment Management Americas Inc. (the "Advisor") assumed all advisory responsibilities for the Portfolio that were previously delegated to the Portfolio's subadvisor. The following portfolio managers handle the day-to-day management of the Portfolio.

Kenneth R. Bowling, CFA	John Brennan	J. Richard Robben, CFA	J. Kevin Horsley, CFA, CPA
Jamie Guenther, CFA	Bruce Harley, CFA	David Vignolo, CFA	Stephen Willer, CFA

The Barclays Capital US Aggregate Index (name changed from Lehman Brothers US Aggregate Index, effective November 3, 2008) 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 *Credit quality (credit rating) 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.*

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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Core Fixed Income VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Commercial and Non-Agency Mortgage-Backed Securities	30%	37%
Corporate Bonds	24%	17%
Mortgage-Backed Securities Pass-Throughs	21%	17%
Collateralized Mortgage Obligations	10%	7%
Government & Agency Obligations	7%	14%
Municipal Bonds and Notes	5%	2%
Asset-Backed	2%	3%
Preferred Securities	1%	3%
	100%	100%

Bond Diversification (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/08**	**12/31/07**
Financials	39%	59%
Utilities	16%	20%
Consumer Discretionary	12%	2%
Energy	12%	2%
Consumer Staples	6%	6%
Materials	4%	5%
Telecommunication Services	3%	1%
Industrials	3%	2%
Information Technology	3%	3%
Health Care	2%	—
	100%	100%

Quality (Excludes Securities Lending Collateral)	**12/31/08**	**12/31/07**
US Government and Agencies	38%	38%
AAA*	32%	42%
AA	2%	2%
A	9%	7%
BBB	19%	11%
	100%	100%

* *Includes cash equivalents*

Effective Maturity (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/08**	**12/31/07**
Under 1 year	1%	2%
1–4.99 years	44%	48%
5–9.99 years	37%	39%
10–14.99 years	4%	1%
15 years or greater	14%	10%
	100%	100%

Asset allocation, bond diversification, quality and effective maturity are subject to change.

Weighted average effective maturity: 7.9 years and 6.7 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 45. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 23.8%		
Consumer Discretionary 3.1%		
British Sky Broadcasting Group PLC, 144A, 9.5%, 11/15/2018	605,000	617,646
Comcast Cable Holdings LLC:		
7.875%, 8/1/2013	435,000	447,274
9.875%, 6/15/2022	250,000	296,884
10.125%, 4/15/2022	363,000	438,029
Comcast Corp., 6.5%, 1/15/2017	55,000	54,324
Grupo Televisa SA, 6.0%, 5/15/2018	600,000	504,540
Omnicom Group, Inc., Zero Coupon, 7/31/2032	197,000	187,889
Time Warner Cable, Inc., 6.75%, 7/1/2018	122,000	117,462
Time Warner Entertainment Co., LP, 10.15%, 5/1/2012	460,000	474,155
Time Warner, Inc.:		
7.625%, 4/15/2031	360,000	353,812
7.7%, 5/1/2032	325,000	325,401
Viacom, Inc.:		
6.25%, 4/30/2016	130,000	107,756
6.75%, 10/5/2037	550,000	423,931
		4,349,103
Consumer Staples 1.5%		
CVS Caremark Corp., 6.302%, 6/1/2037	1,949,000	993,990
Kroger Co., 7.0%, 5/1/2018 (a)	375,000	392,170
Miller Brewing Co., 144A, 5.5%, 8/15/2013	840,000	783,203
		2,169,363
Energy 3.0%		
Energy Transfer Partners LP, 9.7%, 3/15/2019	735,000	757,352
Enterprise Products Operating LP, Series B, 5.6%, 10/15/2014	510,000	432,703
EOG Resources, Inc., 6.875%, 10/1/2018 (a)	470,000	512,609
Northwest Pipeline GP, 6.05%, 6/15/2018	585,000	510,362
Petro-Canada, 6.8%, 5/15/2038	705,000	532,017
TransCanada PipeLines Ltd.:		
6.2%, 10/15/2037	435,000	377,860
6.35%, 5/15/2067	825,000	368,769
Transocean Ltd.:		
Series C, 1.5%, 12/15/2037	349,000	268,730
Series A, 1.625%, 12/15/2037	198,000	172,508
Valero Energy Corp., 7.5%, 4/15/2032	365,000	291,826
		4,224,736
Financials 8.6%		
Banco Mercantil del Norte SA, 144A, 6.862%, 10/13/2021	355,000	213,000
Corp. Andina de Fomento:		
5.75%, 1/12/2017(a)	295,000	246,706
6.875%, 3/15/2012	210,000	203,158
Erac USA Finance Co.:		
144A, 5.8%, 10/15/2012	545,000	455,908
144A, 7.0%, 10/15/2037	1,285,000	707,747
144A, 8.0%, 1/15/2011	1,346,000	1,262,668
Farmers Insurance Exchange, 144A, 8.625%, 5/1/2024	940,000	628,185
FPL Group Capital, Inc.:		
Series D, 7.3%, 9/1/2067	135,000	75,600
7.875%, 12/15/2015	545,000	590,187
Glen Meadow Pass-Through Trust, 144A, 6.505%, 2/12/2067	445,000	198,956
HBOS PLC, 144A, 6.75%, 5/21/2018	195,000	171,619
HSBC Finance Corp., 5.25%, 1/15/2014 (a)	390,000	369,637
International Lease Finance Corp.:		
6.375%, 3/25/2013	262,000	177,976
Series R, 6.625%, 11/15/2013	90,000	60,641
Merrill Lynch & Co., Inc.:		
6.22%, 9/15/2026	500,000	461,668
7.75%, 5/14/2038	410,000	451,689
Morgan Stanley, Series F, 6.0%, 4/28/2015	990,000	854,103
National Australia Bank Ltd., 144A, 5.35%, 6/12/2013	485,000	467,448
National Rural Utilities Cooperative Finance Corp., 10.375%, 11/1/2018	645,000	754,913
PartnerRe Finance II, 6.44%, 12/1/2066	697,000	277,067
Rio Tinto Finance (USA) Ltd.:		
5.875%, 7/15/2013 (a)	675,000	537,646
6.5%, 7/15/2018 (a)	315,000	230,949
StanCorp. Financial Group, Inc., 6.9%, 5/29/2067	940,000	512,696
Standard Chartered PLC, 144A, 7.014%, 12/30/2049	900,000	402,889
TNK-BP Finance SA, Series 5, 144A, 7.5%, 3/13/2013	245,000	151,900
UDR, Inc., Series E, (REIT), 3.9%, 3/15/2010	345,000	299,168
US Bancorp., 0.704%**, 12/11/2035	265,000	241,813
Woori Bank, 144A, 6.208%, 5/2/2037	165,000	65,809
Xstrata Finance Canada Ltd.:		
144A, 5.8%, 11/15/2016	940,000	593,403
144A, 6.9%, 11/15/2037	895,000	535,507
		12,200,656
Health Care 0.5%		
Medco Health Solutions, Inc., 7.125%, 3/15/2018	740,000	**683,829**
Industrials 0.8%		
Rockies Express Pipeline LLC, 144A, 6.25%, 7/15/2013	1,175,000	**1,156,856**
Information Technology 0.8%		
Broadridge Financial Solutions, Inc., 6.125%, 6/1/2017	190,000	137,952

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

	Principal Amount ($)	Value ($)
Hewlett Packard Co., 6.125%, 3/1/2014	355,000	377,366
Tyco Electronics Group SA, 6.0%, 10/1/2012	695,000	626,962
		1,142,280
Materials 1.0%		
ArcelorMittal, 5.375%, 6/1/2013	375,000	282,805
ArcelorMittal USA, 6.5%, 4/15/2014 (a)	380,000	270,190
Barrick North America Finance LLC, 7.5%, 9/15/2038	605,000	528,994
Celulosa Arauco y Constitucion SA, 5.625%, 4/20/2015 (a)	425,000	400,776
		1,482,765
Telecommunication Services 0.8%		
British Telecommunications PLC, 8.625%, 12/15/2010	600,000	617,219
Qwest Corp., 7.625%, 6/15/2015	234,000	191,880
Telecom Italia Capital, 7.721%, 6/4/2038 (a)	445,000	365,456
		1,174,555
Utilities 3.7%		
Arizona Public Service Co., 6.875%, 8/1/2036	1,045,000	727,095
Commonwealth Edison Co., Series 98, 6.15%, 3/15/2012	685,000	667,622
Dominion Resources, Inc.:		
Series 06-B, 6.3%, 9/30/2066	560,000	252,000
7.5%, 6/30/2066	640,000	320,000
Integrys Energy Group, Inc., 6.11%, 12/1/2066	1,305,000	626,400
New York State Electric & Gas Corp., 144A, 6.15%, 12/15/2017	1,125,000	1,023,858
PPL Capital Funding, Inc., Series A, 6.7%, 3/30/2067	1,580,000	695,200
Southwestern Public Service Co., Series G, 8.75%, 12/1/2018	680,000	748,581
Union Electric Co., 6.7%, 2/1/2019	153,000	139,411
		5,200,167
Total Corporate Bonds (Cost $42,852,839)		**33,784,310**

Asset-Backed 1.8%

Home Equity Loans

	Principal Amount ($)	Value ($)
Countrywide Asset-Backed Certificates:		
"A6", Series 2006-S6, 5.657%, 3/25/2034	1,840,000	804,646
"A6", Series 2006-15, 5.826%, 10/25/2046	640,000	372,802
"A1B", Series 2007-S1, 5.888%, 11/25/2036	677,617	437,983
"1AF6", Series 2006-11, 6.15%, 9/25/2046	1,830,000	900,009
Securitized Asset-Backed NIM Trust, "NIM", Series 2005-FR4, 144A, 6.0%, 1/25/2036*	459,930	46
Total Asset-Backed (Cost $5,439,773)		**2,515,486**

Mortgage-Backed Securities Pass-Throughs 21.5%

	Principal Amount ($)	Value ($)
Federal Home Loan Mortgage Corp., 6.0%, 12/1/2034	898,996	928,389
Federal National Mortgage Association:		
4.5%, with various maturities from 8/1/2033 until 10/1/2033	2,735,458	2,779,804
5.0%, with various maturities from 8/1/2033 until 7/1/2037	1,319,523	1,351,530
5.166%**, 9/1/2038	686,964	696,238
5.5%, with various maturities from 2/1/2024 until 7/1/2037	16,876,562	17,295,591
6.0%, 4/1/2024	1,183,966	1,227,809
6.5%, with various maturities from 3/1/2017 until 4/1/2037	5,981,058	6,224,912
8.0%, 9/1/2015	21,523	22,856
Total Mortgage-Backed Securities Pass-Throughs (Cost $29,493,733)		**30,527,129**

Commercial and Non-Agency Mortgage-Backed Securities 29.8%

	Principal Amount ($)	Value ($)
Adjustable Rate Mortgage Trust:		
"3A31", Series 2005-10, 5.414%**, 1/25/2036	1,265,000	612,540
"1A4", Series 2006-2, 5.751%**, 5/25/2036	1,705,000	735,355
Banc of America Commercial Mortgage, Inc.:		
"A4", Series 2007-1, 5.451%, 1/15/2049	855,000	634,999
"A2", Series 2007-2, 5.634%, 4/10/2049	1,050,000	823,084
"A4", Series 2007-3, 5.658%**, 6/10/2049	1,035,000	756,971
"A4", Series 2007-2, 5.689%**, 4/10/2049	675,000	512,824
"AM", Series 2007-4, 5.812%**, 2/10/2051	545,000	250,566
Banc of America Mortgage Securities, Inc., "1A20", Series 2005-3, 5.5%, 4/25/2035	1,840,000	1,535,740
Bear Stearns Adjustable Rate Mortgage Trust:		
"A1", Series 2006-1, 4.625%**, 2/25/2036	2,398,498	1,521,766
"22A1", Series 2007-4, 5.995%**, 6/25/2047	1,260,295	766,168
Chase Mortgage Finance Corp., "3A1", Series 2005-A1, 5.284%**, 12/25/2035	2,204,936	1,436,193
Citicorp Mortgage Securities, Inc., "1A1", Series 2004-8, 5.5%, 10/25/2034	876,307	738,955
Citigroup Mortgage Loan Trust, Inc.:		
"2A1", Series 2006-AR1, 4.7%**, 3/25/2036	1,117,873	671,337
"1A1", Series 2006-AR1, 4.9%**, 10/25/2035	366,159	231,147
"1A2", Series 2006-AR2, 5.521%**, 3/25/2036	1,710,326	921,377
"1CB2", Series 2004-NCM2, 6.75%, 8/25/2034	895,160	675,566

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

	Principal Amount ($)	Value ($)
Citigroup/Deutsche Bank Commercial Mortgage Trust, "A4", Series 2007-CD4, 5.322%, 12/11/2049	846,000	590,590
Countrywide Alternative Loan Trust:		
"A2", Series 2003-21T1, 5.25%, 12/25/2033	865,799	756,326
"A6", Series 2004-14T2, 5.5%, 8/25/2034	777,122	690,063
"7A1", Series 2004-J2, 6.0%, 12/25/2033	186,000	118,924
"1A1", Series 2004-J1, 6.0%, 2/25/2034	112,958	88,037
Greenwich Capital Commercial Funding Corp., "AM", Series 2007-GG9, 5.475%, 3/10/2039	600,000	304,058
GS Mortgage Securities Corp., "2A1", Series 2008-2R, 144A, 7.5%, 10/25/2036	999,074	649,398
GS Mortgage Securities Corp. II, "AM", Series 2007-GG10, 5.799%**, 8/10/2045	1,375,000	629,688
IndyMac Index Mortgage Loan Trust, "3A1", Series 2006-AR33, 5.766%**, 1/25/2037	1,218,603	793,814
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"A2", Series 2007-LD11, 5.804%**, 6/15/2049	2,430,000	1,857,553
"ASB", Series 2007-LD11, 5.819%**, 6/15/2049	3,180,000	2,314,003
"A4", Series 2007-LD12, 5.882%, 2/15/2051	338,000	240,369
"AM", Series 2007-LD12, 6.062%**, 2/15/2051	900,000	422,635
JPMorgan Mortgage Trust:		
"2A4L", Series 2006-A6, 5.556%**, 10/25/2036	1,840,000	813,928
"2A4", Series 2006-A2, 5.754%**, 4/25/2036	2,565,000	1,104,921
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	940,000	668,830
Lehman Mortgage Trust, "3A3", Series 2006-1, 5.5%, 2/25/2036	1,587,268	1,291,070
MASTR Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	460,248	356,692
"5A1", Series 2005-2, 6.5%, 12/25/2034	137,653	81,000
"8A1", Series 2004-3, 7.0%, 4/25/2034	28,167	20,976
MASTR Asset Securitization Trust, "2A7", Series 2003-9, 5.5%, 10/25/2033	1,025,659	794,885
Merrill Lynch Mortgage Investors Trust, "A2", Series 2005-A5, 4.566%, 6/25/2035	210,000	120,577
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 5.829%**, 6/12/2050	900,000	641,139
Morgan Stanley Capital I:		
"A2", Series 2007-HQ11, 5.359%, 2/12/2044	1,800,000	1,425,824
"AM", Series 2007-HQ12, 5.632%**, 4/12/2049	675,000	309,677

	Principal Amount ($)	Value ($)
"AAB", Series 2007-IQ14, 5.654%, 4/15/2049	1,845,000	1,312,513
Residential Accredit Loans, Inc., "CB", Series 2004-QS2, 5.75%, 2/25/2034	593,930	373,805
Sequoia Mortgage Trust, "2A1", Series 2007-1, 5.814%**, 2/20/2047	2,085,257	1,145,952
Structured Adjustable Rate Mortgage Loan Trust, "6A3", Series 2005-21, 5.4%, 11/25/2035	1,485,000	616,290
Structured Asset Securities Corp., "4A1", Series 2005-6, 5.0%, 5/25/2035	616,539	518,471
Wachovia Bank Commercial Mortgage Trust, "A3", Series 2007-C30, 5.246%, 12/15/2043	1,310,000	993,400
Wachovia Mortgage Loan Trust LLC, "3A1", Series 2005-B, 5.158%**, 10/20/2035	2,094,192	1,475,985
Washington Mutual Mortgage Pass-Through Certificates Trust:		
"1A3", Series 2005-AR16, 5.102%**, 12/25/2035	1,660,000	885,562
"1A1", Series 2006-AR16, 5.605%**, 12/25/2036	1,925,183	1,112,772
"1A1", Series 2007-HY2, 5.606%**, 12/25/2036	2,293,328	1,135,502
Wells Fargo Mortgage Backed Securities Trust:		
"A4", Series 2005-AR14, 5.387%**, 8/25/2035	1,700,000	870,570
"A1", Series 2006-3, 5.5%, 3/25/2036	1,637,025	1,315,864
"2A5", Series 2006-AR1, 5.548%**, 3/25/2036	1,700,000	681,565
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $65,085,627)		**42,347,816**

Collateralized Mortgage Obligations 10.1%

	Principal Amount ($)	Value ($)
Fannie Mae Whole Loan, "1A1", Series 2004-W15, 6.0%, 8/25/2044	890,199	925,205
Federal Home Loan Mortgage Corp.:		
"LN", Series 3145, 4.5%, 10/15/2034	1,598,552	1,617,720
"ME", Series 2775, 5.0%, 12/15/2032	1,165,000	1,190,271
"PD", Series 2890, 5.0%, 3/15/2033	1,485,000	1,513,747
"OG", Series 2889, 5.0%, 5/15/2033	1,770,000	1,804,183
"XD", Series 2941, 5.0%, 5/15/2033	1,055,000	1,074,573
"BG", Series 2869, 5.0%, 7/15/2033	335,000	342,568
"PE", Series 2165, 6.0%, 6/15/2029	1,300,205	1,344,230
Federal National Mortgage Association:		
"QD", Series 2005-29, 5.0%, 8/25/2033	435,000	441,671

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

	Principal Amount ($)	Value ($)
"HE", Series 2005-22, 5.0%, 10/25/2033	1,540,000	1,563,566
"PG", Series 2002-3, 5.5%, 2/25/2017	424,841	434,090
"PH", Series 1999-19, 6.0%, 5/25/2029	1,287,572	1,334,923
"Z", Series 2001-14, 6.0%, 5/25/2031	819,913	844,350
Total Collateralized Mortgage Obligations (Cost $13,900,024)		**14,431,097**

Municipal Bonds and Notes 4.8%

Arizona, Salt River Project, Agricultural Improvement & Power District Electric Systems Revenue, Series A, 5.0%, 1/1/2038	480,000	461,539
Florida, State Board of Education, Capital Outlay 2006, Series E, 5.0%, 6/1/2035	500,000	475,375
Glendale, AZ, Municipal Property Corp., Excise Tax Revenue, Series B, 6.157%, 7/1/2033 (b)	420,000	408,673
Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013	945,000	965,450
Miami-Dade County, FL, Educational Facilities Authority Revenue, University of Miami, Series B, 6.1%, 4/1/2015	1,145,000	1,151,000
Michigan, Western Michigan University Revenue, 4.41%, 11/15/2014 (b)	885,000	879,893
New Jersey, Economic Development Authority Revenue, Series B, 6.5%, 11/1/2014 (b)	585,000	614,782
New Jersey, State Educational Facilities Authority Revenue, NJ City University, Series F, 6.85%, 7/1/2036 (b)	395,000	409,212
Newark, NJ, Pension Obligation, 5.853%, 4/1/2022 (b)	865,000	862,465
Texas, Pharr-San Juan-Alamo Independent School District, School Building, 5.0%, 2/1/2038	295,000	287,053
Texas, Eagle Mountain & Saginaw Independent School District, School Building, 5.0%, 8/15/2038	315,000	307,374
Total Municipal Bonds and Notes (Cost $6,843,223)		**6,822,816**

Government & Agency Obligations 6.9%

US Treasury Obligations

	Principal Amount ($)	Value ($)
US Treasury Bonds:		
4.5%, 5/15/2038 (a)	1,298,000	1,771,568
5.5%, 8/15/2028 (a)	2,901,000	3,920,881
US Treasury Notes:		
1.5%, 12/31/2013	200,000	199,547
3.75%, 11/15/2018 (a)	2,300,000	2,603,669
4.875%, 5/31/2011 (a) (c)	500,000	549,649
5.125%, 5/15/2016 (a)	643,000	778,582
Total Government & Agency Obligations (Cost $9,508,268)		**9,823,896**

Preferred Securities 1.6%

Financials

Bank of America Corp.:		
Series K, 8.0%, 1/30/2018 (d)	365,000	262,540
Series M, 8.125%, 5/15/2018 (d)	10,000	7,480
Citigroup Capital XXI, 8.3%, 12/21/2057	500,000	385,619
Citigroup, Inc., Series E, 8.4%, 4/30/2018 (d)	572,000	377,686
Dresdner Funding Trust I, 144A, 8.151%, 6/30/2031	400,000	158,396
Oil Insurance Ltd., 144A, 7.558%, 6/30/2011 (d)	890,000	335,041
PNC Preferred Funding Trust I, 144A, 8.7%, 3/15/2013 (d)	400,000	295,676
Royal Bank of Scotland Group PLC:		
144A, 6.99%, 10/5/2017 (d)	430,000	201,040
Series U, 7.64%, 9/29/2017 (d)	600,000	238,970
Stoneheath Re, 6.868%, 10/15/2011 (d)	250,000	50,000
Total Preferred Securities (Cost $3,956,005)		**2,312,448**

	Shares	Value ($)
Preferred Stocks 0.1%		
Financials		
XL Capital Ltd., Series C, 6.102% (Cost $354,186)	14,400	**147,119**
Securities Lending Collateral 6.0%		
Daily Assets Fund Institutional, 1.69% (e) (f) (Cost $8,500,441)	8,500,441	**8,500,441**
Cash Equivalents 0.0%		
Cash Management QP Trust, 1.42% (e) (Cost $20,720)	20,720	**20,720**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $185,954,839)†	106.4	**151,233,278**
Other Assets and Liabilities, Net	(6.4)	**(9,142,606)**
Net Assets	100.0	**142,090,672**

* *Non-income producing security.*

** *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, 2008.*

† *The cost for federal income tax purposes was $185,975,228. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $34,741,950. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,032,806 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $37,774,756.*

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

(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, 2008 amounted to $8,124,165, which is 5.7% of net assets.*

(b) *Bond is insured by one of these companies:*

Insurance Coverage	As a % of Total Investment Portfolio
Ambac Financial Group, Inc.	0.6
Assured Guaranty Corp.	0.7
Financial Security Assurance, Inc.	0.8

(c) *At December 31, 2008, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

(d) *Date shown is call date; not a maturity date for the perpetual preferred securities.*

(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.*

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

At December 31, 2008, open future contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Appreciation ($)
5 Year US Treasury Note	3/31/2009	157	18,051,752	18,691,586	**639,834**

At December 31, 2008, open future contracts sold were as follows:

Futures	Expiration Date	Contracts	Aggregated Face Value ($)	Value ($)	Unrealized Depreciation ($)
10 Year US Treasury Note	3/20/2009	106	12,614,537	13,329,500	**(714,963)**

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.

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the tables below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities	Other Financial Instruments††
Level 1	$ 8,500,441	$ (75,129)
Level 2	142,535,718	—
Level 3	197,119	—
Total	**$ 151,233,278**	**$ (75,129)**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as future contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

The following is a reconciliation of the Portfolio's Level 3 investments for which significant unobservable inputs were used in determining value at December 31, 2008:

	Investments in Securities
Balance as of January 1, 2008	$ 249,925
Total realized gain (loss)	(558,566)
Change in unrealized appreciation (depreciation)	(406,992)
Amortization Premium/Discount	—
Net purchases (sales)	912,752
Net transfers in (out) of Level 3	—
Balance as of December 31, 2008	**$ 197,119**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investments in securities, at value (cost $177,433,678) — including $8,124,165 of securities loaned	$ 142,712,117
Investment in Daily Assets Fund Institutional (cost $8,500,441)*	8,500,441
Investment in Cash Management QP Trust (cost $20,720)	20,720
Total investments, at value (cost $185,954,839)	151,233,278
Cash	4,578
Receivable for investments sold	278,913
Receivable for Portfolio shares sold	191,165
Interest receivable	1,403,440
Foreign taxes recoverable	1,181
Receivable for daily variation margin on open futures	80,563
Other assets	6,566
Total assets	153,199,684

Liabilities	
Notes payable	250,000
Payable upon return of securities loaned	8,500,441
Payable for investments purchased	1,420,499
Payable for Portfolio shares redeemed	670,992
Accrued management fee	63,928
Other accrued expenses and payables	203,152
Total liabilities	11,109,012
Net assets, at value	**$ 142,090,672**

Net Assets Consist of	
Undistributed net investment income	11,316,317
Net unrealized appreciation (depreciation) on investments	(34,721,561)
Futures	(75,129)
Accumulated net realized gain (loss)	(24,351,413)
Paid-in capital	189,922,458
Net assets, at value	**$ 142,090,672**
Class A	
Net Asset Value, offering and redemption price per share ($109,869,522 ÷ 12,351,718 outstanding shares of beneficial interest, $.01 par value, 24,7742,586 shares authorized)	**$ 8.90**
Class B	
Net Asset Value, offering and redemption price per share ($32,221,150 ÷ 3,628,194 outstanding shares of beneficial interest, $.01 par value, 7,316,641 shares authorized)	**$ 8.88**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Dividends	$ 50,445
Interest (net of foreign taxes withheld of $1,638)	12,678,538
Interest — Cash Management QP Trust	74,465
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	216,337
Total Income	13,019,785
Expenses:	
Management fee	1,158,767
Administration fee	129,626
Services to shareholders	486
Custodian fee	16,926
Distribution service fee (Class B)	126,837
Record keeping fees (Class B)	73,477
Professional fees	72,391
Trustees' fees and expenses	25,735
Reports to shareholders and shareholder meeting	75,742
Interest expense	8,024
Other	20,919
Total expenses before expense reductions	1,708,930
Expense reductions	(13,880)
Total expenses after expense reductions	1,695,050
Net investment income (loss)	**11,324,735**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(19,913,074)
Futures	184,428
	(19,728,646)
Change in net unrealized appreciation (depreciation) on:	
Investments	(31,725,239)
Futures	(75,129)
	(31,800,368)
Net gain (loss)	**(51,529,014)**
Net increase (decrease) in net assets resulting from operations	**$ (40,204,279)**

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, 2008	2007
Operations:		
Net investment income	$ 11,324,735	$ 16,962,355
Net realized gain (loss)	(19,728,646)	(784,875)
Change in net unrealized appreciation (depreciation)	(31,800,368)	(1,784,782)
Net increase (decrease) in net assets resulting from operations	(40,204,279)	14,392,698
Distributions to shareholders from:		
Net investment income:		
Class A	(12,658,879)	(12,441,885)
Class B	(4,079,055)	(3,150,565)
Total distributions	(16,737,934)	(15,592,450)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	25,960,265	84,886,024
Reinvestment of distributions	12,658,879	12,441,885
Cost of shares redeemed	(71,653,396)	(187,114,199)
Net increase (decrease) in net assets from Class A share transactions	(33,034,252)	(89,786,290)
Class B		
Proceeds from shares sold	1,828,386	2,831,011
Reinvestment of distributions	4,079,055	3,150,565
Cost of shares redeemed	(29,114,932)	(19,070,128)
Net increase (decrease) in net assets from Class B share transactions	(23,207,491)	(13,088,552)
Increase (decrease) in net assets	(113,183,956)	(104,074,594)
Net assets at beginning of period	255,274,628	359,349,222
Net assets at end of period (including undistributed net investment income of $11,316,317 and $16,731,325, respectively)	**$ 142,090,672**	**$ 255,274,628**

Other Information		
Class A		
Shares outstanding at beginning of period	15,754,867	23,346,010
Shares sold	2,332,157	7,294,758
Shares issued to shareholders in reinvestment of distributions	1,171,035	1,080,025
Shares redeemed	(6,906,341)	(15,965,926)
Net increase (decrease) in Class A shares	(3,403,149)	(7,591,143)
Shares outstanding at end of period	**12,351,718**	**15,754,867**
Class B		
Shares outstanding at beginning of period	5,850,161	6,968,915
Shares sold	159,817	242,748
Shares issued to shareholders in reinvestment of distributions	376,992	273,249
Shares redeemed	(2,758,776)	(1,634,751)
Net increase (decrease) in Class B shares	(2,221,967)	(1,118,754)
Shares outstanding at end of period	**3,628,194**	**5,850,161**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Date					
Net asset value, beginning of period	**$11.82**	**$11.86**	**$11.81**	**$12.07**	**$12.16**
Income (loss) from investment operations:					
Net investment income[a]	.57	.56	.53	.47	.50
Net realized and unrealized gain (loss)	(2.72)	(.08)	(.05)	(.21)	.05
Total from investment operations	(2.15)	.48	.48	.26	.55
Less distributions from:					
Net investment income	(.77)	(.52)	(.43)	(.41)	(.43)
Net realized gains	—	—	(.00)*	(.11)	(.21)
Total distributions	(.77)	(.52)	(.43)	(.52)	(.64)
Net asset value, end of period	**$ 8.90**	**$11.82**	**$11.86**	**$11.81**	**$12.07**
Total Return (%)	(19.33)[b]	4.17	4.26	2.25	4.53
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	110	186	277	252	210
Ratio of expenses before expense reductions (%)	.70	.66	.68	.67	.66
Ratio of expenses after expense reductions (%)	.70	.66	.68	.67	.66
Ratio of net investment income (loss) (%)	5.36	4.78	4.56	3.96	4.18
Portfolio turnover rate (%)	215	209	198	241	176

a *Based on average shares outstanding during the period.*
b *Total returns would have been lower had certain expenses not been reduced.*
* *Amount is less than $.005.*

Class B

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$11.80**	**$11.84**	**$11.78**	**$12.04**	**$12.13**
Income (loss) from investment operations:					
Net investment income[a]	.53	.51	.49	.42	.45
Net realized and unrealized gain (loss)	(2.73)	(.08)	(.05)	(.21)	.05
Total from investment operations	(2.20)	.43	.44	.21	.50
Less distributions from:					
Net investment income	(.72)	(.47)	(.38)	(.36)	(.38)
Net realized gains	—	—	(.00)*	(.11)	(.21)
Total distributions	(.72)	(.47)	(.38)	(.47)	(.59)
Net asset value, end of period	**$ 8.88**	**$11.80**	**$11.84**	**$11.78**	**$12.04**
Total Return (%)	(19.71)[b]	3.75	3.89	1.85	4.10
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	32	69	82	89	88
Ratio of expenses before expense reductions (%)	1.10	1.05	1.07	1.07	1.03
Ratio of expenses after expense reductions (%)	1.09	1.05	1.07	1.07	1.03
Ratio of net investment income (loss) (%)	4.97	4.39	4.17	3.56	3.81
Portfolio turnover rate (%)	215	209	198	241	176

a *Based on average shares outstanding during the period.*
b *Total returns would have been lower had certain expenses not been reduced.*
* *Amount is less than $.005.*

Performance Summary

December 31, 2008

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.

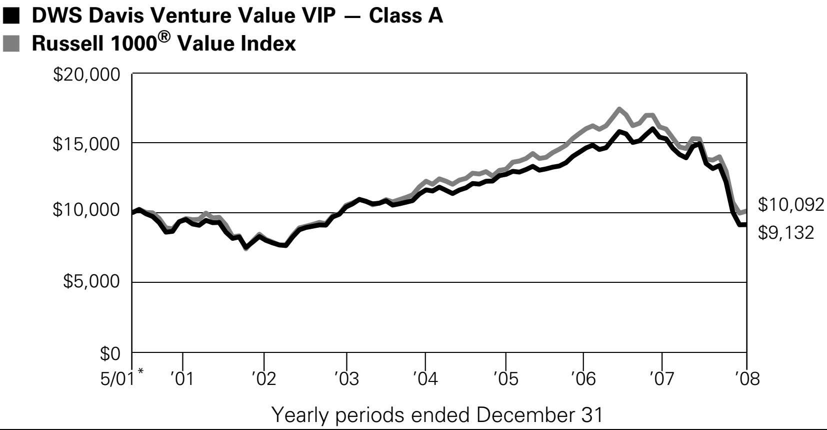
The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 1.02% and 1.27% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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 risks 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 12/31/2008



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.

Comparative Results

DWS Davis Venture Value VIP		1-Year	3-Year	5-Year	Life of Portfolio*
Class A	Growth of $10,000	$5,977	$7,170	$8,791	$9,132
	Average annual total return	–40.23%	–10.50%	–2.54%	–1.18%
Russell 1000 Value Index	Growth of $10,000	$6,315	$7,707	$9,611	$10,092
	Average annual total return	–36.85%	–8.32%	–.79%	.12%

DWS Davis Venture Value VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$5,922	$7,052	$8,582	$10,402
	Average annual total return	–40.78%	–10.99%	–3.01%	.61%
Russell 1000 Value Index	Growth of $10,000	$6,315	$7,707	$9,611	$11,087
	Average annual total return	–36.85%	–8.32%	–.79%	1.60%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 676.00	$ 674.50
Expenses Paid per $1,000*	$ 3.88	$ 4.92
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,020.51	$1,019.25
Expenses Paid per $1,000*	$ 4.67	$ 5.94

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Davis Venture Value VIP	.92%	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 Davis Venture Value VIP

For the year ended December 31, 2008, Class A shares of DWS Davis Venture Value VIP returned –40.23% (unadjusted for contract charges), compared to its benchmark, the Russell 1000® Value Index, which returned –36.85%.

The Portfolio's financial companies outperformed the corresponding sector within the index (–49% versus –52% for the index), but were still the largest detractors from performance. A higher relative average weighting in this sector (32% versus 27% for the index) detracted from both absolute and relative performance. American International Group, Inc., American Express Co., Merrill Lynch & Co., Inc., Berkshire Hathaway, Inc., Loews Companies, Inc., Wachovia Corp. and JPMorgan Chase & Co. were among the top detractors from performance. Two financial companies, Wells Fargo & Co. and Hartford Financial Services Group, Inc., were among the top contributors to the Portfolio's performance.

The second-largest detractors from performance were energy companies. The Portfolio's energy companies underperformed the corresponding sector within the index (–36% versus –27%). A higher relative average weighting in this sector (18% versus 17% for the index) also detracted from performance. ConocoPhillips was among the top detractors.

Individual companies among the largest contributors to performance over the year included H&R Block, Inc. (a consumer discretionary company) and Wal-Mart Stores (a consumer staples company). The Portfolio no longer owns Wal-Mart Stores.

The Portfolio held 12% of net assets in foreign companies at year-end December 31, 2008. As a whole, these companies underperformed the domestic companies held by the Portfolio.

Christopher C. Davis
Kenneth Charles Feinberg

Portfolio Managers, Davis Selected Advisers, L.P., Subadvisor to the Portfolio

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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Davis Venture Value VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	99%	100%
Cash Equivalents	1%	—
	100%	100%

Sector Diversification (As a % of Common Stocks and Corporate Bonds)	**12/31/08**	**12/31/07**
Financials	30%	33%
Energy	18%	16%
Consumer Staples	16%	16%
Consumer Discretionary	11%	10%
Information Technology	8%	9%
Industrials	7%	7%
Materials	5%	4%
Health Care	5%	4%
Telecommunication Services	—	1%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 57. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 Davis Venture Value VIP

	Shares	Value ($)
Common Stocks 98.1%		
Consumer Discretionary 10.3%		
Automobiles 0.8%		
Harley-Davidson, Inc. (a)	60,610	**1,028,552**
Diversified Consumer Services 1.6%		
H&R Block, Inc.	94,650	**2,150,448**
Household Durables 0.2%		
Garmin Ltd. (a)	8,315	159,398
Hunter Douglas NV	6,062	199,411
		358,809
Internet & Catalog Retail 0.6%		
Amazon.com, Inc.*	13,010	667,153
Liberty Media Corp. — Interactive "A"*	31,670	98,810
		765,963
Media 5.1%		
Comcast Corp. Special "A" (a)	199,410	3,220,471
Grupo Televisa SA (ADR)	96,490	1,441,561
Liberty Media Corp. — Entertainment "A"*	25,270	441,720
News Corp. "A"	172,750	1,570,297
WPP PLC (ADR)	1,100	32,549
		6,706,598
Multiline Retail 0.1%		
Sears Holdings Corp.* (a)	2,100	**81,627**
Specialty Retail 1.9%		
Bed Bath & Beyond, Inc.* (a)	48,000	1,220,160
CarMax, Inc.* (a)	65,900	519,292
Lowe's Companies, Inc.	33,915	729,851
		2,469,303
Consumer Staples 15.3%		
Beverages 2.4%		
Diageo PLC (ADR)	34,920	1,981,361
Heineken Holding NV	41,200	1,179,504
		3,160,865
Food & Staples Retailing 7.3%		
Costco Wholesale Corp.	128,340	6,737,850
CVS Caremark Corp.	98,519	2,831,436
Whole Foods Market, Inc.	12,600	118,944
		9,688,230
Food Products 0.2%		
The Hershey Co. (a)	9,460	**328,640**
Household Products 1.7%		
Procter & Gamble Co.	36,050	**2,228,611**
Personal Products 0.3%		
Avon Products, Inc.	16,800	**403,704**
Tobacco 3.4%		
Altria Group, Inc.	5,150	77,559
Philip Morris International, Inc.	100,090	4,354,916
		4,432,475

	Shares	Value ($)
Energy 17.7%		
Energy Equipment & Services 0.5%		
Transocean Ltd.*	15,141	**715,412**
Oil, Gas & Consumable Fuels 17.2%		
Canadian Natural Resources Ltd.	50,620	2,023,788
China Coal Energy Co. "H"	934,200	754,933
ConocoPhillips	111,320	5,766,376
Devon Energy Corp.	67,690	4,447,910
EOG Resources, Inc.	57,955	3,858,644
Occidental Petroleum Corp.	92,800	5,567,072
OGX Petroleo e Gas Participacoes SA*	800	182,497
		22,601,220
Financials 29.8%		
Capital Markets 3.5%		
Ameriprise Financial, Inc.	30,220	705,939
Bank of New York Mellon Corp.	89,205	2,527,178
E*TRADE Financial Corp.* (a)	13,200	15,180
Merrill Lynch & Co., Inc.	54,702	636,731
Morgan Stanley	6,300	101,052
State Street Corp.	5,100	200,583
The Goldman Sachs Group, Inc.	5,260	443,892
		4,630,555
Commercial Banks 4.8%		
Wachovia Corp.	44,537	246,735
Wells Fargo & Co.	204,180	6,019,226
		6,265,961
Consumer Finance 2.5%		
American Express Co. (a)	173,200	3,212,860
Discover Financial Services	9,650	91,964
		3,304,824
Diversified Financial Services 5.2%		
Citigroup, Inc.	42,900	287,859
JPMorgan Chase & Co.	180,124	5,679,310
Moody's Corp.	42,200	847,798
		6,814,967
Insurance 12.8%		
American International Group, Inc. (a)	174,570	274,075
Berkshire Hathaway, Inc. "B"*	2,109	6,778,326
Hartford Financial Services Group, Inc.	28,600	469,612
Loews Corp.	106,650	3,012,863
Markel Corp.* (a)	400	119,600
MBIA, Inc.* (a)	10,920	44,444
NIPPONKOA Insurance Co., Ltd.	196,200	1,525,239
Principal Financial Group, Inc. (a)	12,000	270,840
Progressive Corp.	187,292	2,773,795
Sun Life Financial, Inc. (a)	7,370	170,542
Transatlantic Holdings, Inc.	35,973	1,441,078
		16,880,414

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

	Shares	Value ($)
Real Estate Management & Development 1.0%		
Brookfield Asset Management Inc. "A"	43,500	664,245
Hang Lung Group Ltd.	223,000	680,657
		1,344,902
Health Care 4.5%		
Health Care Providers & Services 2.7%		
Cardinal Health, Inc.	29,440	1,014,797
Express Scripts, Inc.*	22,445	1,234,026
UnitedHealth Group, Inc.	47,600	1,266,160
		3,514,983
Pharmaceuticals 1.8%		
Johnson & Johnson	13,790	825,056
Schering-Plough Corp.	93,800	1,597,414
		2,422,470
Industrials 7.1%		
Air Freight & Logistics 0.6%		
United Parcel Service, Inc. "B"	13,500	**744,660**
Commercial Services & Supplies 1.8%		
Iron Mountain, Inc.* (a)	97,282	**2,405,784**
Electrical Equipment 0.2%		
ABB Ltd. (ADR) (Registered)	12,980	**194,830**
Industrial Conglomerates 1.1%		
Siemens AG (Registered)	8,340	624,670
Tyco International Ltd.	36,950	798,120
		1,422,790
Machinery 0.3%		
PACCAR, Inc. (a)	15,060	**430,716**
Marine 0.8%		
China Shipping Development Co., Ltd. "H"	400,000	402,603
Kuehne & Nagel International AG (Registered)	9,620	623,724
		1,026,327
Professional Services 1.3%		
Dun & Bradstreet Corp.	22,500	**1,737,000**
Transportation Infrastructure 1.0%		
China Merchants Holdings International Co., Ltd.	519,223	1,023,160
Cosco Pacific Ltd.	320,600	330,070
		1,353,230
Information Technology 7.8%		
Communications Equipment 0.5%		
Cisco Systems, Inc.*	45,500	**741,650**
Computers & Peripherals 1.5%		
Dell, Inc.* (a)	42,440	434,586
Hewlett-Packard Co.	41,220	1,495,874
		1,930,460
Electronic Equipment, Instruments & Components 1.2%		
Agilent Technologies, Inc.*	63,330	989,848
Tyco Electronics Ltd.	36,950	598,959
		1,588,807
Internet Software & Services 1.0%		
eBay, Inc.*	18,455	257,632
Google, Inc. "A"*	3,297	1,014,322
		1,271,954
IT Services 0.2%		
Visa, Inc. "A" (a)	5,240	**274,838**
Semiconductors & Semiconductor Equipment 1.4%		
Texas Instruments, Inc.	117,700	**1,826,704**
Software 2.0%		
Microsoft Corp.	135,400	**2,632,176**
Materials 5.2%		
Chemicals 0.5%		
Monsanto Co.	9,450	**664,807**
Construction Materials 2.1%		
Martin Marietta Materials, Inc. (a)	17,000	1,650,360
Vulcan Materials Co. (a)	16,860	1,173,119
		2,823,479
Containers & Packaging 1.6%		
Sealed Air Corp.	142,900	**2,134,926**
Metals & Mining 0.5%		
BHP Billiton PLC	24,750	466,213
Rio Tinto PLC	8,800	190,668
		656,881
Paper & Forest Products 0.5%		
Sino-Forest Corp.*	78,600	**628,418**
Telecommunication Services 0.2%		
Wireless Telecommunication Services		
Sprint Nextel Corp.*	141,270	**258,524**
Utilities 0.2%		
Independent Power Producers & Energy Traders		
AES Corp.* (a)	34,400	**283,456**
Total Common Stocks (Cost $135,496,146)		**129,331,950**

	Principal Amount ($)	Value ($)
Corporate Bonds 0.2%		
Materials		
Sino-Forest Corp., 144A, 5.0%, 8/1/2013 (Cost $340,000)	340,000	**243,100**

	Shares	Value ($)
Securities Lending Collateral 10.7%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $14,051,468)	14,051,468	**14,051,468**
Cash Equivalents 1.3%		
Cash Management QP Trust, 1.42% (b) (Cost $1,731,005)	1,731,005	**1,731,005**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $151,618,619)†	110.3	**145,357,523**
Other Assets and Liabilities, Net	(10.3)	**(13,564,866)**
Net Assets	100.0	**131,792,657**

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

* *Non-income producing security.*

† *The cost for federal income tax purposes was $152,071,271. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $6,713,748. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $30,817,617 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $37,531,365.*

(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, 2008 amounted to $14,060,943, which is 10.7% of net assets.*

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

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

ADR: American Depositary Receipt

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**
Level 1	$ 135,382,566
Level 2	9,974,957
Level 3	—
Total	**$ 145,357,523**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $135,836,146) — including $14,060,943 of securities loaned	$	129,575,050
Investment in Daily Assets Fund Institutional (cost $14,051,468)*		14,051,468
Investment in Cash Management QP Trust (cost $1,731,005)		1,731,005
Total investments in securities, at value (cost $151,618,619)		145,357,523
Cash		7,101
Receivable for investments sold		640,095
Receivable for Portfolio shares sold		7,625
Dividends receivable		127,232
Interest receivable		40,953
Foreign taxes recoverable		14,422
Due from Advisor		1,309
Other assets		6,597
Total assets		146,202,857
Liabilities		
Payable upon return of securities loaned		14,051,468
Payable for Portfolio shares redeemed		112,899
Accrued management fee		119,563
Other accrued expenses and payables		126,270
Total liabilities		14,410,200
Net assets, at value	**$**	**131,792,657**
Net Assets Consist of		
Undistributed net investment income		2,432,744
Net unrealized appreciation (depreciation) on:		
Investments		(6,261,096)
Foreign currency		1,020
Accumulated net realized gain (loss)		10,222,749
Paid-in capital		125,397,240
Net assets, at value	**$**	**131,792,657**
Class A		
Net Asset Value, offering and redemption price per share ($131,579,381 ÷ 17,516,923 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.51**
Class B		
Net Asset Value, offering and redemption price per share ($213,276 ÷ 28,559 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.47**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $34,007)	$	4,161,878
Interest		6,633
Interest — Cash Management QP Trust		68,642
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		411,543
Total Income		4,648,696
Expenses:		
Management fee		2,136,001
Administrative fee		140,451
Custodian and accounting fees		80,597
Distribution service fee (Class B)		17,012
Record keeping fees (Class B)		9,985
Services to shareholders		506
Professional fees		71,353
Trustees' fees and expenses		32,179
Reports to shareholders and shareholder meeting		55,465
Other		25,316
Total expenses before expense reductions		2,568,865
Expense reductions		(392,699)
Total expenses after expense reductions		2,176,166
Net investment income (loss)		**2,472,530**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		10,438,043
Foreign currency		(32,097)
		10,405,946
Change in net unrealized appreciation (depreciation) on:		
Investments		(123,229,979)
Foreign currency		1,349
		(123,228,630)
Net gain (loss)		**(112,822,684)**
Net increase (decrease) in net assets resulting from operations	**$**	**(110,350,154)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 2,472,530	$ 3,809,524
Net realized gain (loss)	10,405,946	36,053,016
Change in net unrealized appreciation (depreciation)	(123,228,630)	(20,326,582)
Net increase (decrease) in net assets resulting from operations	(110,350,154)	19,535,958
Distributions to shareholders from:		
Net investment income:		
Class A	(3,580,646)	(2,451,514)
Class B	(190,630)	(255,608)
Net realized gains:		
Class A	(33,139,891)	(4,403,063)
Class B	(2,425,280)	(989,328)
Total distributions	(39,336,447)	(8,099,513)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	3,164,462	14,075,726
Reinvestment of distributions	36,720,537	6,854,577
Cost of shares redeemed	(69,334,956)	(68,408,104)
Net increase (decrease) in net assets from Class A share transactions	(29,449,957)	(47,477,801)
Class B		
Proceeds from shares sold	988,175	4,124,041
Reinvestment of distributions	2,615,910	1,244,936
Cost of shares redeemed	(22,494,892)	(65,157,088)
Net increase (decrease) in net assets from Class B share transactions	(18,890,807)	(59,788,111)
Increase (decrease) in net assets	(198,027,365)	(95,829,467)
Net assets at beginning of period	329,820,022	425,649,489
Net assets at end of period (including undistributed net investment income of $2,432,744 and $3,748,514, respectively)	**$ 131,792,657**	**$ 329,820,022**

Other Information	2008	2007
Class A		
Shares outstanding at beginning of period	21,062,118	24,284,177
Shares sold	291,614	967,409
Shares issued to shareholders in reinvestment of distributions	3,209,837	490,313
Shares redeemed	(7,046,646)	(4,679,781)
Net increase (decrease) in Class A shares	(3,545,195)	(3,222,059)
Shares outstanding at end of period	**17,516,923**	**21,062,118**
Class B		
Shares outstanding at beginning of period	1,546,251	5,597,014
Shares sold	73,239	287,676
Shares issued to shareholders in reinvestment of distributions	228,264	88,987
Shares redeemed	(1,819,195)	(4,427,426)
Net increase (decrease) in Class B shares	(1,517,692)	(4,050,763)
Shares outstanding at end of period	**28,559**	**1,546,251**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.59**	**$14.25**	**$12.49**	**$11.48**	**$10.31**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.12	.15	.10	.09	.08
Net realized and unrealized gain (loss)	(5.36)	.47	1.74	1.01	1.14
Total from investment operations	(5.24)	.62	1.84	1.10	1.22
Less distributions from:					
Net investment income	(.18)	(.10)	(.08)	(.09)	(.05)
Net realized gains	(1.66)	(.18)	—	—	—
Total distributions	(1.84)	(.28)	(.08)	(.09)	(.05)
Net asset value, end of period	**$ 7.51**	**$14.59**	**$14.25**	**$12.49**	**$11.48**
Total Return (%)	(40.23)[b]	4.46[b]	14.84[b]	9.64[b]	11.83
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	132	307	346	309	268
Ratio of expenses before expense reductions (%)	1.07	1.02	1.02	1.02	1.05
Ratio of expenses after expense reductions (%)	.90	.88	.85	.96	1.05
Ratio of net investment income (%)	1.05	1.01	.77	.78	.74
Portfolio turnover rate (%)	17	9	16	8	3

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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.57**	**$14.22**	**$12.47**	**$11.46**	**$10.29**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.04	.09	.05	.04	.04
Net realized and unrealized gain (loss)	(5.35)	.49	1.73	1.01	1.13
Total from investment operations	(5.31)	.58	1.78	1.05	1.17
Less distributions from:					
Net investment income	(.13)	(.05)	(.03)	(.04)	(.00)*
Net realized gains	(1.66)	(.18)	—	—	—
Total distributions	(1.79)	(.23)	(.03)	(.04)	(.00)*
Net asset value, end of period	**$ 7.47**	**$14.57**	**$14.22**	**$12.47**	**$11.46**
Total Return (%)	(40.78)[b]	4.14[b]	14.34[b]	9.23[b]	11.42
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.21	23	80	78	66
Ratio of expenses before expense reductions (%)	1.53	1.39	1.40	1.41	1.44
Ratio of expenses after expense reductions (%)	1.32	1.25	1.23	1.34	1.44
Ratio of net investment income (%)	.63	.64	.39	.40	.36
Portfolio turnover rate (%)	17	9	16	8	3

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.

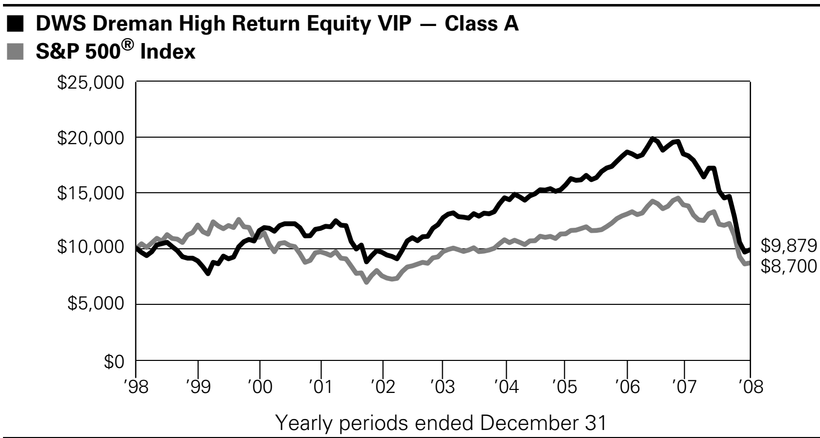
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.78% and 1.13% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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. In addition, 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 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



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	10-Year
Class A	Growth of $10,000	$5,402	$6,295	$7,741	$9,879
	Average annual total return	–45.98%	–14.30%	–4.99%	–.12%
S&P 500 Index	Growth of $10,000	$6,300	$7,696	$8,953	$8,700
	Average annual total return	–37.00%	–8.36%	–2.19%	–1.38%

DWS Dreman High Return Equity VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$5,384	$6,225	$7,598	$9,143
	Average annual total return	–46.16%	–14.61%	–5.34%	–1.37%
S&P 500 Index	Growth of $10,000	$6,300	$7,696	$8,953	$10,335
	Average annual total return	–37.00%	–8.36%	–2.19%	.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 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; 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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 652.30	$ 651.30
Expenses Paid per $1,000*	$ 3.36	$ 4.77

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,021.06	$1,019.36
Expenses Paid per $1,000*	$ 4.12	$ 5.84

* *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 366.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Dreman High Return Equity VIP	.81%	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 Dreman High Return Equity VIP

The year just ended was the worst in many decades for the US equity markets. Essentially all equity indices posted negative returns for this period, as markets reflected economic problems including a housing slump, rising unemployment, a crisis of confidence and an extreme credit crunch. The Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, had a negative return of –37.31% for the 12 months ended December 31, 2008. With a return of –45.98% (Class A shares, unadjusted for contract charges), DWS Dreman High Return Equity VIP underperformed its benchmark, the Standard & Poor's® 500 (S&P 500) Index, which posted a return of –37.00%.

The Portfolio's underperformance relative to the benchmark resulted mainly from a significant overweight and stock selection in the financial sector. Large positions that performed poorly included Washington Mutual, Inc., Fannie Mae, Freddie Mac and Wachovia Corp.; all of these except Washington Mutual have been eliminated from the Portfolio, and the overweight position in financials has been reduced.[1] Severe liquidity problems throughout the financial industry have caused essentially all financial stocks to perform poorly.

An overweight position in energy contributed to performance relative to the benchmark. We find this sector attractive because we believe there is likely to be substantial long-term growth in worldwide demand for energy. Other positives were positions in retailer Lowe's Companies, Inc. and UST, Inc., a producer of smokeless tobacco products, which was acquired by Altria Group, Inc. after the end of the period.

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

The Russell 3000 Index is an unmanaged index that 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 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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Dreman High Return Equity VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Energy	29%	26%
Financials	20%	30%
Health Care	19%	16%
Industrials	10%	8%
Consumer Discretionary	10%	6%
Consumer Staples	7%	12%
Materials	3%	—
Telecommunication Services	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 67. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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, 2008

DWS Dreman High Return Equity VIP

	Shares	Value ($)
Common Stocks 99.6%		
Consumer Discretionary 10.2%		
Hotels Restaurants & Leisure 1.2%		
Carnival Corp. (Unit)	152,305	**3,704,057**
Media 1.7%		
Walt Disney Co. (a)	239,830	**5,441,743**
Multiline Retail 0.2%		
Macy's, Inc.	51,730	**535,405**
Specialty Retail 7.1%		
Lowe's Companies, Inc.	408,367	8,788,058
Staples, Inc.	741,165	13,281,677
		22,069,735
Consumer Staples 6.8%		
Tobacco		
Altria Group, Inc.	960,227	14,461,019
Philip Morris International, Inc.	119,594	5,203,535
UST, Inc.	21,840	1,515,259
		21,179,813
Energy 28.6%		
Oil, Gas & Consumable Fuels		
Anadarko Petroleum Corp.	332,690	12,825,200
Apache Corp.	166,530	12,411,481
Chesapeake Energy Corp.	388,790	6,286,734
Chevron Corp.	138,165	10,220,065
ConocoPhillips	386,204	20,005,367
Devon Energy Corp.	260,380	17,109,570
Occidental Petroleum Corp.	96,990	5,818,430
Valero Energy Corp.	184,820	3,999,505
		88,676,352
Financials 19.7%		
Capital Markets 1.9%		
The Goldman Sachs Group, Inc.	69,375	**5,854,556**
Commercial Banks 6.0%		
KeyCorp.	113,610	967,957
PNC Financial Services Group, Inc.	148,851	7,293,699
SunTrust Banks, Inc.	135,600	4,005,624
US Bancorp. (a)	175,595	4,391,631
Wells Fargo & Co.	62,625	1,846,185
		18,505,096
Consumer Finance 1.2%		
American Express Co.	207,434	**3,847,901**
Diversified Financial Services 7.1%		
Bank of America Corp.	723,434	10,185,951
Citigroup, Inc. (a)	559,155	3,751,930
JPMorgan Chase & Co.	254,750	8,032,267
		21,970,148
Insurance 3.5%		
Allstate Corp.	76,414	2,503,323
Chubb Corp.	77,931	3,974,481
Hartford Financial Services Group, Inc. (a)	68,918	1,131,633
The Travelers Companies, Inc.	72,065	3,257,338
		10,866,775
Thrifts & Mortgage Finance 0.0%		
Washington Mutual, Inc.	1,394,944	**29,992**
Health Care 19.0%		
Biotechnology 0.6%		
Amgen, Inc.*	30,550	**1,764,263**
Health Care Providers & Services 9.3%		
Aetna, Inc.	352,405	10,043,542
UnitedHealth Group, Inc.	706,855	18,802,343
		28,845,885
Pharmaceuticals 9.1%		
Eli Lilly & Co.	73,055	2,941,925
Pfizer, Inc.	884,036	15,656,278
Wyeth	259,950	9,750,724
		28,348,927
Industrials 10.3%		
Aerospace & Defense 4.3%		
Northrop Grumman Corp.	111,278	5,011,961
United Technologies Corp.	157,795	8,457,812
		13,469,773
Air Freight & Logistics 1.3%		
FedEx Corp.	64,010	**4,106,242**
Industrial Conglomerates 3.1%		
3M Co.	29,606	1,703,529
General Electric Co.	477,690	7,738,578
		9,442,107
Machinery 1.6%		
Caterpillar, Inc.	65,595	2,930,129
Eaton Corp.	37,795	1,878,789
		4,808,918
Materials 3.2%		
Metals & Mining		
BHP Billiton Ltd. (ADR) (a)	187,105	8,026,804
Newmont Mining Corp.	49,315	2,007,121
		10,033,925
Telecommunication Services 1.8%		
Diversified Telecommunication Services		
Verizon Communications, Inc.	165,450	**5,608,755**
Total Common Stocks (Cost $345,053,205)		**309,110,368**
Securities Lending Collateral 4.3%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $13,251,485)	13,251,485	**13,251,485**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $358,304,690)†	103.9	**322,361,853**
Other Assets and Liabilities, Net	(3.9)	**(12,059,253)**
Net Assets	100.0	**310,302,600**

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

* *Non-income producing security.*

† *The cost for federal income tax purposes was $359,927,600. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $37,565,747. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $48,500,450 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $86,066,197.*

(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, 2008 amounted to $12,970,979, which is 4.2% 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

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**
Level 1	$ 322,361,853
Level 2	—
Level 3	—
Total	**$ 322,361,853**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investments in securities, at value (cost $345,053,205) — including $12,970,979 of securities loaned	$ 309,110,368
Investment in Daily Assets Fund Institutional (cost $13,251,485)*	13,251,485
Total investments at value (cost $358,304,690)	322,361,853
Cash	25,087
Dividends receivable	874,284
Receivable for investments sold	1,714,667
Receivable for Portfolio shares sold	25,285
Interest receivable	13,652
Other assets	12,226
Total assets	325,027,054

Liabilities	
Payable upon return of securities loaned	13,251,485
Payable for investments purchased	600,306
Payable for Portfolio shares redeemed	63,822
Accrued management fee	169,463
Note payable	450,000
Other accrued expenses and payables	189,378
Total liabilities	14,724,454
Net assets, at value	**$ 310,302,600**

Net Assets Consist of	
Undistributed net investment income	12,673,806
Net unrealized appreciation (depreciation) on investments	(35,942,837)
Accumulated net realized gain (loss)	(148,694,230)
Paid-in capital	482,265,861
Net assets, at value	**$ 310,302,600**
Class A	
Net Asset Value, offering and redemption price per share ($308,264,855 ÷ 49,642,073 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 6.21**
Class B	
Net Asset Value, offering and redemption price per share ($2,037,745 ÷ 327,546 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 6.22**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $186)	$ 17,082,533
Interest	220
Interest — Cash Management QP Trust	32,930
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	258,210
Total Income	17,373,893
Expenses:	
Management fee	3,949,911
Administration fee	331,580
Custodian and accounting fees	68,023
Distribution service fee (Class B)	31,412
Services to shareholders	1,051
Record keeping fees (Class B)	11,164
Professional fees	87,307
Trustees' fees and expenses	57,333
Reports to shareholders and shareholder meeting	145,448
Interest expense	15,847
Other	27,545
Total expenses before expense reductions	4,726,621
Expense reductions	(41,375)
Total expenses after expense reductions	4,685,246
Net investment income (loss)	**12,688,647**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(145,580,587)
Futures	(102,946)
	(145,683,533)
Change in net unrealized appreciation (depreciation) on:	
Investments	(192,880,861)
	(192,880,861)
Net gain (loss)	**(338,564,394)**
Net increase (decrease) in net assets resulting from operations	**$ (325,875,747)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 12,688,647	$ 19,420,427
Net realized gain (loss)	(145,683,533)	122,846,409
Change in net unrealized appreciation (depreciation)	(192,880,861)	(150,271,931)
Net increase (decrease) in net assets resulting from operations	(325,875,747)	(8,005,095)
Distributions to shareholders from:		
Net investment income:		
Class A	(18,513,153)	(13,677,685)
Class B	(745,822)	(1,939,768)
Net realized gains:		
Class A	(116,884,417)	(7,925,978)
Class B	(5,393,183)	(1,537,591)
Total distributions	(141,536,575)	(25,081,022)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	14,533,917	30,297,612
Reinvestment of distributions	135,397,570	21,603,663
Cost of shares redeemed	(175,333,071)	(218,373,492)
Net increase (decrease) in net assets from Class A share transactions	(25,401,584)	(166,472,217)
Class B		
Proceeds from shares sold	1,441,659	4,409,581
Reinvestment of distributions	6,139,005	3,477,359
Cost of shares redeemed	(32,996,043)	(163,138,034)
Net increase (decrease) in net assets from Class B share transactions	(25,415,379)	(155,251,094)
Increase (decrease) in net assets	(518,229,285)	(354,809,428)
Net assets at beginning of period	828,531,885	1,183,341,313
Net assets at end of period (including undistributed net investment income of $12,673,806 and $19,200,356, respectively)	**$ 310,302,600**	**$ 828,531,885**

Other Information		
Class A		
Shares outstanding at beginning of period	54,976,574	66,083,197
Shares sold	1,441,589	2,028,711
Shares issued to shareholders in reinvestment of distributions	13,132,645	1,492,997
Shares redeemed	(19,908,735)	(14,628,331)
Net increase (decrease) in Class A shares	(5,334,501)	(11,106,623)
Shares outstanding at end of period	**49,642,073**	**54,976,574**
Class B		
Shares outstanding at beginning of period	2,551,709	12,713,676
Shares sold	160,248	292,792
Shares issued to shareholders in reinvestment of distributions	593,141	239,488
Shares redeemed	(2,977,552)	(10,694,247)
Net increase (decrease) in Class B shares	(2,224,163)	(10,161,967)
Shares outstanding at end of period	**327,546**	**2,551,709**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.40**	**$15.02**	**$13.41**	**$12.65**	**$11.29**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.22	.29	.27	.24	.23
Net realized and unrealized gain (loss)	(5.80)	(.56)	2.21	.75	1.32
Total from investment operations	(5.58)	(.27)	2.48	.99	1.55
Less distributions from:					
Net investment income	(.36)	(.22)	(.28)	(.23)	(.19)
Net realized gains	(2.25)	(.13)	(.59)	—	—
Total distributions	(2.61)	(.35)	(.87)	(.23)	(.19)
Net asset value, end of period	**$ 6.21**	**$14.40**	**$15.02**	**$13.41**	**$12.65**
Total Return (%)	(45.98)[b]	(1.86)	18.74	7.92	13.95
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	308	792	992	785	747
Ratio of expenses before expense reductions (%)	.81	.78	.77	.78	.78
Ratio of expenses after expense reductions(%)	.80	.78	.77	.78	.78
Ratio of net investment income (%)	2.21	1.94	1.87	1.84	1.96
Portfolio turnover rate (%)	28	27	20	10	9

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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.41**	**$15.02**	**$13.39**	**$12.63**	**$11.27**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.16	.24	.22	.19	.18
Net realized and unrealized gain (loss)	(5.79)	(.56)	2.19	.75	1.33
Total from investment operations	(5.63)	(.32)	2.41	.94	1.51
Less distributions from:					
Net investment income	(.31)	(.16)	(.19)	(.18)	(.15)
Net realized gains	(2.25)	(.13)	(.59)	—	—
Total distributions	(2.56)	(.29)	(.78)	(.18)	(.15)
Net asset value, end of period	**$ 6.22**	**$14.41**	**$15.02**	**$13.39**	**$12.63**
Total Return (%)	(46.16)[b]	(2.19)[b]	18.21[b]	7.51	13.53
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	37	191	135	117
Ratio of expenses before expense reduction (%)	1.21	1.15	1.16	1.17	1.16
Ratio of expenses after expense reduction (%)	1.17	1.13	1.16	1.17	1.16
Ratio of net investment income (%)	1.84	1.59	1.48	1.45	1.58
Portfolio turnover rate (%)	28	27	20	10	9

a *Based on average shares outstanding during the period.*

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

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.

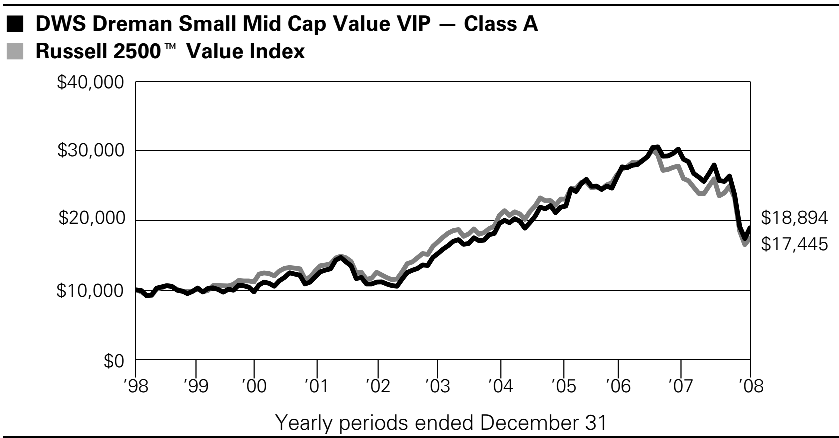
The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.78% and 1.17% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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.

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 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	$6,658	$8,581	$11,923	$18,894
	Average annual total return	–33.42%	–4.97%	3.58%	6.57%
Russell 2500 Value Index	Growth of $10,000	$6,801	$7,579	$9,928	$17,445
	Average annual total return	–31.99%	–8.83%	–.15%	5.72%

DWS Dreman Small Mid Cap Value VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$6,633	$8,484	$11,691	$13,920
	Average annual total return	–33.67%	–5.33%	3.17%	5.22%
Russell 2500 Value Index	Growth of $10,000	$6,801	$7,579	$9,928	$12,383
	Average annual total return	–31.99%	–8.83%	–.15%	3.34%

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. 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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 735.60	$ 734.00
Expenses Paid per $1,000*	$ 3.62	$ 5.10
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,020.96	$1,019.25
Expenses Paid per $1,000*	$ 4.22	$ 5.94

* *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 366.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Dreman Small Mid Cap Value VIP	.83%	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.

Management Summary

DWS Dreman Small Mid Cap Value VIP

The year just ended was the worst in many decades for the US equity markets. Essentially all equity indices posted negative returns for this period, as markets reflected economic problems including a housing slump, rising unemployment, a crisis of confidence and an extreme credit crunch. The Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, had a return of –37.31% for the 12 months ended December 31, 2008. Small-cap stocks, as measured by the Russell 2000® Index, were slightly stronger than large-cap, as measured by the Russell 1000® Index. Mid-cap stocks were the weakest category, as measured by the Russell Midcap® Index, which returned –41.46%. Within the Portfolio's capitalization range, value stocks were stronger than growth stocks: the Russell 2500 Value™ Index returned –31.99%, while the Russell 2500™ Growth Index returned –41.50%. The DWS Dreman Small Mid Cap VIP (Class A shares, unadjusted for contract charges) returned –33.42% for 2008, underperforming its benchmark, the Russell 2500 Value Index.

In this very difficult market environment, the Portfolio's performance benefited from avoiding some of the worst-performing stocks, particularly in information technology and health care. Holdings with positive returns included IPC Holdings Ltd., a provider of catastrophe reinsurance, and Healthspring, Inc., a managed care organization focused on Medicare. An overweight and stock selection in the energy sector detracted from performance; stock selection in financials also detracted.[1] Positions that performed particularly well included Walter Industries, Inc., a company with a diversified line of products and services, including coal and natural gas, furnace and foundry coke and slag fiber, mortgage financing and home construction; and Superior Energy Services, Inc., a provider of specialized oilfield services and equipment. Positions that detracted from performance included Protective Life Corp.*, a life insurance company; CommScope, Inc., which provides infrastructure solutions for communications networks; and General Cable Corp., which produces copper, aluminum and fiber optic wire and cable products.

David N. Dreman	E. Clifton Hoover, Jr.	Mark Roach
Lead Portfolio Manager	*Portfolio Managers*	

Dreman Value Management, L.L.C., Subadvisor to the Portfolio

The Russell 3000 Index is an unmanaged index that 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 2000 Index is an unmanaged, capitalization-weighted measure of approximately 2,000 of the smallest companies in the Russell 3000 Index.

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 Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

The Russell 2500 Value Index is an unmanaged index of those securities in the Russell 3000 Index with a lower price-to-book ratio and lower forecasted growth values.

The Russell 2500 Growth Index is an unmanaged index of those securities with high price-to-book 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.*

* *Not held in the Portfolio as of December 31, 2008.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Dreman Small Mid Cap Value VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	99%	97%
Cash Equivalents	1%	3%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Industrials	23%	20%
Financials	22%	25%
Consumer Staples	12%	12%
Health Care	11%	8%
Information Technology	9%	7%
Energy	6%	12%
Consumer Discretionary	6%	7%
Utilities	5%	4%
Materials	4%	4%
Telecommunications Services	2%	1%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 76. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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, 2008

DWS Dreman Small Mid Cap Value VIP

	Shares	Value ($)
Common Stocks 98.8%		
Consumer Discretionary 6.0%		
Auto Components 0.8%		
Autoliv, Inc.	92,900	**1,993,634**
Diversified Consumer Services 1.4%		
Regis Corp.	238,650	**3,467,585**
Leisure Equipment & Products 1.8%		
Mattel, Inc. (a)	274,000	**4,384,000**
Specialty Retail 0.8%		
The Men's Wearhouse, Inc. (a)	153,150	**2,073,651**
Textiles, Apparel & Luxury Goods 1.2%		
Hanesbrands, Inc.* (a)	236,600	**3,016,650**
Consumer Staples 12.1%		
Food & Staples Retailing 3.5%		
Ruddick Corp. (a)	152,250	4,209,712
Weis Markets, Inc.	133,817	4,500,266
		8,709,978
Food Products 6.9%		
Del Monte Foods Co.	716,350	5,114,739
Ralcorp Holdings, Inc.*	98,150	5,731,960
Sanderson Farms, Inc. (a)	74,400	2,571,264
The J.M. Smucker Co.	80,400	3,486,144
		16,904,107
Tobacco 1.7%		
Vector Group Ltd. (a)	310,260	**4,225,741**
Energy 6.2%		
Energy Equipment & Services 2.6%		
Atwood Oceanics, Inc.* (a)	103,500	1,581,480
Hercules Offshore, Inc.* (a)	200,100	950,475
Key Energy Services, Inc.* (a)	406,250	1,791,563
Superior Energy Services, Inc.*	129,650	2,065,324
		6,388,842
Oil, Gas & Consumable Fuels 3.6%		
Arch Coal, Inc. (a)	150,400	2,450,016
Cimarex Energy Co. (a)	90,600	2,426,268
Pinnacle Gas Resources, Inc. 144A*	241,000	74,710
St. Mary Land & Exploration Co. (a)	150,850	3,063,764
Walter Industries, Inc. (a)	53,900	943,789
		8,958,547
Financials 22.0%		
Capital Markets 0.2%		
FBR Capital Markets Corp. 144A*	95,600	**464,616**
Commercial Banks 2.6%		
Boston Private Financial Holdings, Inc. (a)	233,200	1,595,088
MB Financial, Inc. (a)	178,100	4,977,895
		6,572,983
Insurance 16.5%		
Arch Capital Group Ltd.* (a)	73,300	5,138,330
Argo Group International Holdings Ltd.*	182,188	6,179,817
Endurance Specialty Holdings Ltd.	220,250	6,724,232
Hanover Insurance Group, Inc.	110,000	4,726,700
HCC Insurance Holdings, Inc. (a)	226,550	6,060,213
IPC Holdings Ltd.	186,900	5,588,310
Platinum Underwriters Holdings Ltd.	143,550	5,179,284
Willis Group Holdings Ltd. (a)	47,159	1,173,316
		40,770,202
Real Estate Investment Trusts 2.7%		
Hospitality Properties Trust (REIT) (a)	199,200	2,962,104
Ventas, Inc. (REIT) (a)	109,600	3,679,272
		6,641,376
Health Care 10.8%		
Health Care Equipment & Supplies 1.1%		
Teleflex, Inc.	54,600	**2,735,460**
Health Care Providers & Services 9.7%		
Amedisys, Inc.* (a)	98,200	4,059,588
AmSurg Corp.*	199,800	4,663,332
Healthspring, Inc.* (a)	330,400	6,598,088
LifePoint Hospitals, Inc.* (a)	137,200	3,133,648
Lincare Holdings, Inc.* (a)	209,300	5,636,449
		24,091,105
Industrials 22.7%		
Aerospace & Defense 3.7%		
Alliant Techsystems, Inc.* (a)	65,700	5,634,432
Curtiss-Wright Corp. (a)	105,100	3,509,289
		9,143,721
Commercial Services & Supplies 2.5%		
Republic Services, Inc.	103,455	2,564,649
The Brink's Co.	135,900	3,652,992
		6,217,641
Construction & Engineering 1.8%		
URS Corp.*	110,000	**4,484,700**
Electrical Equipment 5.7%		
General Cable Corp.* (a)	112,300	1,986,587
Hubbell, Inc. "B" (a)	168,500	5,506,580
Regal-Beloit Corp. (a)	173,900	6,606,461
		14,099,628
Machinery 5.7%		
Barnes Group, Inc. (a)	261,450	3,791,025
Joy Global, Inc. (a)	117,700	2,694,153
Kennametal, Inc.	195,000	4,327,050
Mueller Water Products, Inc. "A" (a)	406,650	3,415,860
		14,228,088
Professional Services 1.7%		
Kelly Services, Inc. "A" (a)	326,250	**4,244,513**
Road & Rail 0.8%		
Ryder System, Inc.	51,686	**2,004,383**
Trading Companies & Distributors 0.8%		
WESCO International, Inc.*	99,600	**1,915,308**
Information Technology 8.5%		
Communications Equipment 0.9%		
CommScope, Inc.* (a)	149,000	**2,315,460**

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

	Shares	Value ($)
Electronic Equipment, Instruments & Components 3.3%		
Anixter International, Inc.* (a)	105,700	3,183,684
Arrow Electronics, Inc.*	163,000	3,070,920
Jabil Circuit, Inc.	284,600	1,921,050
		8,175,654
IT Services 1.7%		
Affiliated Computer Services, Inc. "A"* (a)	88,500	**4,066,575**
Software 2.6%		
Jack Henry & Associates, Inc.	332,750	**6,458,677**
Materials 4.1%		
Chemicals 0.9%		
Ashland, Inc.	1,278	13,432
CF Industries Holdings, Inc.	46,300	2,276,108
		2,289,540
Metals & Mining 3.2%		
IAMGOLD Corp.	602,900	3,683,719
Reliance Steel & Aluminum Co.	141,700	2,825,498
RTI International Metals, Inc.* (a)	92,650	1,325,821
		7,835,038
Telecommunication Services 1.4%		
Diversified Telecommunication Services		
Windstream Corp. (a)	375,800	**3,457,360**
Utilities 5.0%		
Electric Utilities 3.4%		
ALLETE, Inc.	109,850	3,544,860
IDACORP, Inc. (a)	170,650	5,025,642
		8,570,502
Multi-Utilities 1.6%		
Integrys Energy Group, Inc. (a)	90,600	**3,893,988**
Total Common Stocks (Cost $328,312,064)		**244,799,253**
Securities Lending Collateral 29.1%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $72,016,899)	72,016,899	**72,016,899**
Cash Equivalents 1.3%		
Cash Management QP Trust, 1.42% (b) (Cost $3,330,639)	3,330,639	**3,330,639**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $403,659,602)†	129.2	**320,146,791**
Other Assets and Liabilities, Net	(29.2)	**(72,386,703)**
Net Assets	100.0	**247,760,088**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $405,384,576. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $85,237,785. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $8,914,929 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $94,152,714.*

(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, 2008 amounted to $72,442,673, which is 29.2% 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.

REIT: Real Estate Investment Trust

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities
Level 1	$ 316,816,152
Level 2	3,330,639
Level 3	—
Total	**$ 320,146,791**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $328,312,064 — including $72,442,673 of securities loaned)	$	244,799,253
Investment in Daily Assets Fund Institutional (cost $72,016,899)*		72,016,899
Investment in Cash Management QP Trust (cost $3,330,639)		3,330,639
Total investments, at value (cost $403,659,602)		320,146,791
Dividends receivable		299,612
Interest receivable		79,231
Receivable for Portfolio shares sold		25,581
Other assets		11,517
Total assets		320,562,732
Liabilities		
Payable upon return of securities loaned		72,016,899
Payable for Portfolio shares redeemed		436,489
Payable for investments purchased		13,053
Accrued management fee		142,277
Other accrued expenses and payables		193,926
Total liabilities		72,802,644
Net assets, at value	**$**	**247,760,088**
Net Assets Consist of:		
Undistributed net investment income		4,324,008
Net unrealized appreciation (depreciation) on:		
Investments		(83,512,811)
Foreign currency		(320)
Accumulated net realized gain (loss)		(64,286,752)
Paid-in capital		391,235,963
Net assets, at value	**$**	**247,760,088**
Class A		
Net Asset Value, offering and redemption price per share ($223,409,162 ÷ 28,178,465 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.93**
Class B		
Net Asset Value, offering and redemption price per share ($24,350,926 ÷ 3,073,371 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.92**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $4,441)	$	6,673,749
Interest — Cash Management QP Trust		507,598
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		448,109
Total Income		7,629,456
Expenses:		
Management fee		2,646,998
Administration fee		244,036
Custodian fee		19,117
Distribution service fee (Class B)		83,016
Record keeping fees (Class B)		35,202
Services to shareholders		1,069
Professional fees		74,382
Trustees' fees and expenses		33,021
Reports to shareholders and shareholder meeting		205,868
Other		14,891
Total expenses before expense reductions		3,357,600
Expense reductions		(23,067)
Total expenses after expense reductions		3,334,533
Net investment income (loss)		**4,294,923**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		(64,286,752)
Change in net unrealized appreciation (depreciation) on:		
Investments		(96,934,851)
Foreign currency		(772)
		(96,935,623)
Net gain (loss)		**(161,222,375)**
Net increase (decrease) in net assets resulting from operations	**$**	**(156,927,452)**

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	**2008**	**2007**
Operations:		
Net investment income (loss)	$ 4,294,923	$ 4,898,627
Net realized gain (loss)	(64,286,752)	173,994,914
Change in net unrealized appreciation (depreciation)	(96,935,623)	(153,503,878)
Net increase (decrease) in net assets resulting from operations	(156,927,452)	25,389,663
Distributions to shareholders from:		
Net investment income:		
Class A	(6,363,604)	(5,615,367)
Class B	(427,114)	(521,975)
Distributions to shareholders from:		
Net realized gains:		
Class A	(155,713,279)	(79,369,510)
Class B	(13,714,537)	(12,524,743)
Total distributions	(176,218,534)	(98,031,595)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	37,425,632	42,602,597
Reinvestment of distributions	162,076,883	84,984,877
Cost of shares redeemed	(139,030,105)	(156,265,470)
Net increase (decrease) in net assets from Class A share transactions	60,472,410	(28,677,996)
Class B		
Proceeds from shares sold	14,371,044	12,637,109
Reinvestment of distributions	14,141,651	13,046,718
Cost of shares redeemed	(9,977,946)	(74,159,545)
Net increase (decrease) in net assets from Class B share transactions	18,534,749	(48,475,718)
Increase (decrease) in net assets	(254,138,827)	(149,795,646)
Net assets at beginning of period	501,898,915	651,694,561
Net assets at end of period (including undistributed net investment income of $4,324,008 and $6,809,899, respectively)	**$ 247,760,088**	**$ 501,898,915**

Other Information		
Class A		
Shares outstanding at beginning of period	23,283,418	24,500,577
Shares sold	3,355,802	1,968,230
Shares issued to shareholders in reinvestment of distributions	15,105,022	4,200,933
Shares redeemed	(13,565,777)	(7,386,322)
Net increase (decrease) in Class A shares	4,895,047	(1,217,159)
Shares outstanding at end of period	**28,178,465**	**23,283,418**
Class B		
Shares outstanding at beginning of period	1,669,556	3,927,983
Shares sold	1,078,541	603,769
Shares issued to shareholders in reinvestment of distributions	1,315,502	644,282
Shares redeemed	(990,228)	(3,506,478)
Net increase (decrease) in Class B shares	1,403,815	(2,258,427)
Shares outstanding at end of period	**3,073,371**	**1,669,556**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$20.12**	**$22.93**	**$19.98**	**$20.05**	**$16.06**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.13	.18	.15	.19	.17
Net realized and unrealized gain (loss)	(4.92)	.54	4.69	1.67	3.98
Total from investment operations	(4.79)	.72	4.84	1.86	4.15
Less distributions from:					
Net investment income	(.29)	(.23)	(.18)	(.15)	(.16)
Net realized gains	(7.11)	(3.30)	(1.71)	(1.78)	—
Total distributions	(7.40)	(3.53)	(1.89)	(1.93)	(.16)
Net asset value, end of period	**$ 7.93**	**$20.12**	**$22.93**	**$19.98**	**$20.05**
Total Return (%)	(33.42)[b]	3.06	25.06	10.25	26.03
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	223	468	562	493	467
Ratio of expenses before expense reductions (%)	.83	.78	.79	.79	.79
Ratio of expenses after expense reductions (%)	.82	.78	.79	.79	.79
Ratio of net investment income (%)	1.13	.85	.71	.96	.96
Portfolio turnover rate (%)	49	110	52	61	73

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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$20.08**	**$22.88**	**$19.93**	**$20.01**	**$16.03**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.09	.10	.07	.11	.10
Net realized and unrealized gain (loss)	(4.92)	.54	4.67	1.66	3.97
Total from investment operations	(4.83)	.64	4.74	1.77	4.07
Less distributions from:					
Net investment income	(.22)	(.14)	(.08)	(.07)	(.09)
Net realized gains	(7.11)	(3.30)	(1.71)	(1.78)	—
Total distributions	(7.33)	(3.44)	(1.79)	(1.85)	(.09)
Net asset value, end of period	**$ 7.92**	**$20.08**	**$22.88**	**$19.93**	**$20.01**
Total Return (%)	(33.67)[b]	2.67	24.59	9.78	25.52
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	24	34	90	83	71
Ratio of expenses before expense reductions (%)	1.18	1.16	1.17	1.19	1.16
Ratio of expenses after expense reductions (%)	1.17	1.16	1.17	1.19	1.16
Ratio of net investment income (%)	.78	.47	.33	.56	.59
Portfolio turnover rate (%)	49	110	52	61	73

a *Based on average shares outstanding during the period.*

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

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.

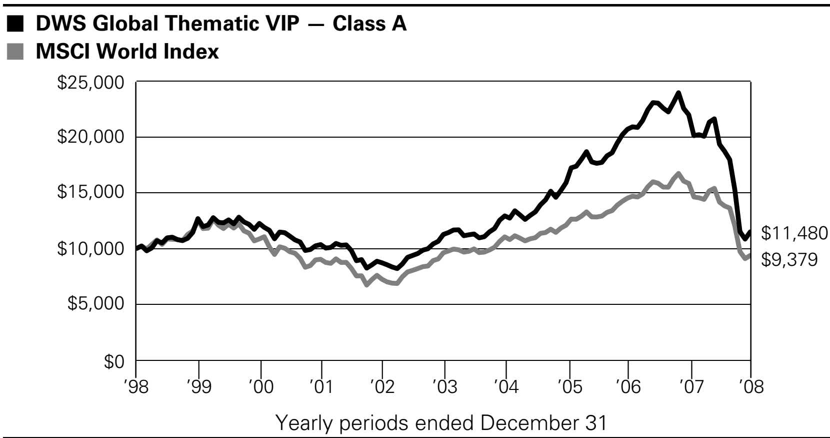
The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 1.33% and 1.68% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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 risks, 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



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	10-Year
Class A	Growth of $10,000	$5,225	$7,228	$10,198	$11,480
	Average annual total return	–47.75%	–10.26%	.39%	1.39%
MSCI World Index	Growth of $10,000	$5,929	$7,762	$9,749	$9,379
	Average annual total return	–40.71%	–8.10%	–.51%	–.64%

DWS Global Thematic VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$5,213	$7,153	$10,018	$11,596
	Average annual total return	–47.87%	–10.57%	.04%	2.30%
MSCI World Index	Growth of $10,000	$5,929	$7,762	$9,749	$11,401
	Average annual total return	–40.71%	–8.10%	–.51%	2.04%

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 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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 594.10	$ 593.30
Expenses Paid per $1,000*	$ 4.41	$ 5.85
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,019.61	$1,017.80
Expenses Paid per $1,000*	$ 5.58	$ 7.41

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Global Thematic VIP	1.10%	1.46%

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

Global equities performed poorly during 2008, the worst perfomance in many decades, reflecting an environment characterized by slowing economic growth, the evolution of the financial and credit crises, and elevated risk aversion among investors. The Class A shares of the Portfolio (unadjusted for contract charges) returned –47.75%, underperforming the –40.71% return of the MSCI World Index.

In managing the Portfolio, 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 can benefit as these themes unfold. During the past year, our themes related to global agribusiness, energy and basic materials led us to hold above-market weightings in these sectors — a negative for performance at a time of sharply slowing global growth.[1] Among the leading individual detractors in these sectors were the Russian energy company Gazprom, the Brazilian port operator Santos Brasil Participacoes SA and the food company Bunge Ltd.* On the plus side, we added value through themes that invest in health care stocks, including Mylan, Inc., and gold mining companies, such as Newmont Mining Corp.* and Barrick Gold Corp.*

We remain committed to investing in high-quality franchises with unique competitive advantages. Specifically, we want to own those companies that can expand their assets with little leverage and, in most cases, also grow their earnings despite the difficult environment. We continue to believe that emerging markets and global agribusiness are among the best opportunities over the next three to five years. In our view, current valuations reflect a selling panic that is inconsistent with the outstanding growth potential in both areas.

Oliver Kratz

Portfolio Manager, Deutsche Investment Management Americas Inc.

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.

1 *Above market weightings means the Portfolio holds a higher weighting in a given sector or security than the benchmark.*

* *Not held in the Portfolio as of December 31, 2008.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Global Thematic VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	95%	92%
Exchange Traded Funds	2%	2%
Cash Equivalents	1%	4%
Preferred Stocks	1%	2%
Participatory Notes	1%	—
	100%	100%

Sector Diversification (As a % of Common, Preferred Stocks and Participatory Notes)	**12/31/08**	**12/31/07**
Health Care	18%	11%
Industrials	16%	21%
Financials	16%	24%
Consumer Staples	13%	8%
Energy	11%	4%
Consumer Discretionary	8%	13%
Materials	7%	5%
Information Technology	6%	11%
Telecommunication Services	5%	3%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/08**	**12/31/07**
United States	40%	28%
Continental Europe	24%	39%
Asia (excluding Japan)	11%	12%
Latin America	9%	7%
United Kingdom	5%	3%
Japan	5%	6%
Canada	2%	1%
Middle East	2%	2%
Bermuda	1%	—
Africa	—	2%
Other	1%	—
	100%	100%

Asset allocation, sector and geographical diversifications are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 85. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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, 2008

DWS Global Thematic VIP

	Shares	Value ($)
Common Stocks 96.9%		
Australia 0.7%		
Australian Wealth Management Ltd. (Cost $1,052,743)	572,100	**442,742**
Austria 1.3%		
Flughafen Wien AG (Cost $1,970,009)	19,000	**849,541**
Bermuda 1.4%		
Lazard Ltd. "A" (Cost $977,909)	29,200	**868,408**
Brazil 5.6%		
BM&F BOVESPA SA	119,200	313,665
Companhia de Bebidas das Americas (ADR) (Preferred) (a)	14,500	642,495
Companhia Vale do Rio Doce (ADR)	81,400	985,754
Petroleo Brasileiro SA (ADR)	26,000	636,740
Santos Brasil Participacoes SA (Unit)	166,100	461,824
SLC Agricola SA	74,600	454,790
(Cost $5,112,410)		**3,495,268**
Canada 1.7%		
Canadian National Railway Co.	19,000	698,446
Viterra, Inc.*	47,000	361,685
(Cost $1,349,636)		**1,060,131**
Cayman Islands 0.7%		
Fresh Del Monte Produce, Inc.* (Cost $452,414)	18,900	**423,738**
China 2.8%		
Industrial & Commercial Bank of China Ltd. "H"	602,000	319,944
Ping An Insurance (Group) Co. of China Ltd. "H"	295,000	1,441,618
Sunshine Holdings Ltd.*	1,571,000	32,893
(Cost $2,431,245)		**1,794,455**
France 2.1%		
BNP Paribas	6,819	287,942
Compagnie de Saint-Gobain	8,820	415,996
Total SA	11,373	620,029
(Cost $1,469,545)		**1,323,967**
Germany 7.4%		
Axel Springer AG	6,302	456,065
BASF SE	10,000	395,145
Daimler AG (Registered)	10,100	383,762
Deutsche Post AG (Registered)	51,600	872,969
Deutsche Postbank AG (a)	16,800	371,530
Fraport AG	10,200	445,451
Hamburger Hafen und Logistik AG	13,200	439,644
Siemens AG (Registered)	7,000	524,303
Stada Arzneimittel AG	26,900	786,770
(Cost $5,871,696)		**4,675,639**
Hong Kong 3.4%		
Cheung Kong (Holdings) Ltd.	49,000	467,164
China Mobile Ltd.	44,500	451,177
China Water Affairs Group Ltd.*	1,001,700	123,686
CNOOC Ltd. (ADR)	3,800	361,912
GOME Electrical Appliances Holdings Ltd.	2,135,000	344,346
Hongkong & Shanghai Hotels Ltd.	553,242	416,666
(Cost $3,968,474)		**2,164,951**
India 2.1%		
Bharti Airtel Ltd.* (Cost $1,743,974)	89,547	**1,318,856**
Indonesia 0.2%		
PT Bumi Resources Tbk (Cost $1,153,255)	1,406,100	**121,329**
Israel 1.6%		
Teva Pharmaceutical Industries Ltd. (ADR) (a) (Cost $961,694)	23,400	**996,138**
Italy 0.4%		
Gemina SpA* (Cost $861,060)	518,706	**269,639**
Japan 4.9%		
Central Japan Railway Co.	41	354,358
Mitsui Fudosan Co., Ltd.	76,000	1,262,962
Mizuho Financial Group, Inc.	206,000	608,360
Toyota Motor Corp.	26,600	870,693
(Cost $3,504,101)		**3,096,373**
Kazakhstan 0.2%		
Kazakhstan Kagazy PLC (GDR) 144A*	181,200	52,548
Steppe Cement Ltd.*	124,003	50,980
(Cost $1,577,114)		**103,528**
Korea 1.0%		
Daesang Corp.	17,036	80,128
Samsung Electronics Co., Ltd.	1,595	579,173
(Cost $704,403)		**659,301**
Luxembourg 0.5%		
ArcelorMittal (Cost $309,618)	13,046	**308,288**
Malaysia 0.8%		
AMMB Holdings Bhd. (Cost $531,235)	698,200	**500,769**
Mexico 4.1%		
America Movil SAB de CV "L" (ADR)	27,950	866,171
Cemex SAB de CV (ADR)*	34,400	314,416
Grupo Aeroportuario del Pacifico SAB de CV "B" (ADR)	33,400	768,868
Grupo Financiero Banorte SAB de CV "O"	163,100	294,436
Grupo Televisa SA (ADR)	21,600	322,704
(Cost $3,035,401)		**2,566,595**
Netherlands 2.2%		
QIAGEN NV* (a) (Cost $1,330,113)	78,800	**1,377,068**
Russia 2.3%		
Far Eastern Shipping Co.*	689,000	199,810
Gazprom (ADR)*	38,682	554,371
Globaltrans Investment PLC (GDR) 144A*	47,000	65,800

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

	Shares	Value ($)
Novorossiysk Sea Trade Port (GDR) 144A	36,300	245,025
Rosneft Oil Co. (GDR)*	43,350	162,563
Vimpel-Communications (ADR)	27,500	196,900
(Cost $3,164,746)		**1,424,469**
Singapore 0.3%		
Food Empire Holdings Ltd. (Cost $362,240)	715,000	**169,083**
Sweden 0.4%		
Autoliv, Inc. (Cost $227,818)	11,400	**244,644**
Switzerland 6.1%		
Julius Baer Holding AG (Registered)	14,716	566,091
Nestle SA (Registered)	17,743	699,297
Roche Holding AG (Genusschein)	12,671	1,950,494
Swiss Re (Registered)	12,179	591,672
(Cost $3,759,520)		**3,807,554**
Thailand 0.3%		
Seamico Securities PCL (Foreign Registered)	1,852,800	69,254
Siam City Bank PCL (Foreign Registered)*	523,300	106,074
(Cost $459,041)		**175,328**
United Kingdom 5.4%		
Aberdeen Asset Management PLC	391,046	680,192
Anglo American PLC	22,619	516,653
BHP Billiton PLC	16,759	315,687
G4S PLC	462,639	1,373,041
GlaxoSmithKline PLC	28,850	535,583
Tesco PLC	625	3,256
(Cost $4,527,355)		**3,424,412**
United States 37.0%		
AGCO Corp.*	17,300	408,107
Altria Group, Inc.	46,900	706,314
Anadarko Petroleum Corp.	12,000	462,600
Apache Corp.	4,100	305,573
Berkshire Hathaway, Inc. "A"*	3	289,800
Campbell Soup Co.	15,000	450,150
ConocoPhillips	10,100	523,180
CSX Corp.	13,500	438,345
CVS Caremark Corp.	42,400	1,218,576
Expedia, Inc.*	29,000	238,960
ExxonMobil Corp.	19,500	1,556,685
General Mills, Inc.	13,900	844,425
Google, Inc. "A"*	2,000	615,300
Hess Corp.	2,900	155,556
Intrepid Potash, Inc.*	13,500	280,395
Johnson & Johnson	9,650	577,360
Laboratory Corp. of America Holdings*	11,700	753,597
Liberty Media Corp. — Entertainment "A"*	23,200	405,536
Life Technologies Corp.*	20,900	487,179
Marathon Oil Corp.	5,900	161,424
Mattel, Inc.	56,700	907,200
McCormick & Co., Inc.	7,500	238,950
Microsoft Corp.	60,100	1,168,344
Monster Worldwide, Inc.*	31,700	383,253
Mylan, Inc.* (a)	144,950	1,433,555
National-Oilwell Varco, Inc.*	14,200	347,048
Oracle Corp.*	37,800	670,194
Owens-Illinois, Inc.*	41,000	1,120,530
Pfizer, Inc.	105,575	1,869,733
Philip Morris International, Inc.	9,700	422,047
Schlumberger Ltd.	11,100	469,863
Stryker Corp. (a)	14,300	571,285
The J.M. Smucker Co.	4,100	177,776
Union Pacific Corp.	11,100	530,580
Wal-Mart Stores, Inc.	15,700	880,142
XTO Energy, Inc.	9,300	328,011
Yahoo!, Inc.*	71,300	869,861
(Cost $26,138,535)		**23,267,434**
Total Common Stocks (Cost $79,007,304)		**60,929,648**

Preferred Stock 0.6%

	Shares	Value ($)
Germany		
Porsche Automobil Holding SE (Cost $334,815)	4,850	**377,839**

Participatory Note 0.6%

	Shares	Value ($)
United States		
Merrill Lynch Frontier Index Trust (issuer Merrill Lynch International & Co.), Expiration Date 2/27/2009 (Cost $1,023,048)	10,000	**368,200**

Exchange Traded Fund 2.8%

	Shares	Value ($)
United States		
iShares Nasdaq Biotechnology Index Fund (a) (Cost $1,750,455)	24,725	**1,756,711**

Call Options Purchased 0.0%

	Shares	Value ($)
United States		
General Electric Co., Expiration Date 1/16/2010, Strike Price $30.0 (Cost $212,772)	510	**9,180**

Securities Lending Collateral 10.2%

	Shares	Value ($)
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $6,423,337)	6,423,337	**6,423,337**

Cash Equivalents 0.8%

	Shares	Value ($)
Cash Management QP Trust, 1.42% (b) (Cost $460,549)	460,549	**460,549**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $89,212,280)†	111.9	**70,325,464**
Other Assets and Liabilities, Net (a)	(11.9)	**(7,458,656)**
Net Assets	100.0	**62,866,808**

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

* *Non-income producing security.*

† *The cost for federal income tax purposes was $92,552,472. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $22,227,008 This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,966,217 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $24,193,225.*

(a) *All or a portion of these securities were on loan amounting to $6,151,506. In addition, included in other assets and liabilities, net is a pending sale, amounting to $147,815, that is also on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2008 amounted to $6,299,321, which is 10.0% 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.*

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

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the tables below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**
Level 1	$ 42,755,529
Level 2	27,225,589
Level 3	344,346
Total	**$ 70,325,464**

The following is a reconciliation of the Portfolio's Level 3 investments for which significant unobservable inputs were used in determining value at December 31, 2008:

	Investments in Securities
Balance as of January 1, 2008	$ —
Total realized gain (loss)	(436,550)
Change in unrealized appreciation (depreciation)	(997,618)
Amortization Premium/Discount	—
Net purchases (sales)	172,439
Net transfers in (out) of Level 3	1,606,075
Balance as of December 31, 2008	**$ 344,346**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $82,328,394) — including $6,151,506 of securities loaned	$	63,441,578
Investment in Daily Assets Fund Institutional (cost $6,423,337)*		6,423,337
Investment in Cash Management QP Trust (cost $460,549)		460,549
Total investments, at value (cost $89,212,280)		70,325,464
Cash		2,867
Foreign currency, at value (cost $313,212)		320,297
Receivable for investments sold		1,771,811
Receivable for Portfolio shares sold		7,761
Dividends receivable		127,876
Interest receivable		7,483
Foreign taxes recoverable		23,641
Due from Advisor		69
Other assets		3,515
Total assets		72,590,784
Liabilities		
Payable for investments purchased		3,059,019
Payable upon return of securities loaned		6,423,337
Payable for Portfolio shares redeemed		13,150
Accrued management fee		38,168
Other accrued expenses and payables		190,302
Total liabilities		9,723,976
Net assets, at value	**$**	**62,866,808**
Net Assets Consist of		
Undistributed net investment income		932,658
Net unrealized appreciation (depreciation) on:		
Investments		(18,886,816)
Foreign currency		(2,555)
Accumulated net realized gain (loss)		(57,628,318)
Paid-in capital		138,451,839
Net assets, at value	**$**	**62,866,808**
Class A		
Net Asset Value, offering and redemption price per share ($58,760,432 ÷ 10,056,541 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.84**
Class B		
Net Asset Value, offering and redemption price per share ($4,106,376 ÷ 702,064 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.85**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $170,729)	$	2,339,060
Interest		2,853
Interest — Cash Management QP Trust		75,228
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		198,312
Total Income		2,615,453
Expenses:		
Management fee		1,138,988
Administration fee		72,094
Services to shareholders		671
Custodian and accounting fees		326,276
Distribution service fee (Class B)		17,747
Record keeping fees (Class B)		7,067
Professional fees		77,893
Trustees' fees and expenses		17,002
Reports to shareholders and shareholder meeting		93,163
Other		34,109
Total expenses before expense reductions		1,785,010
Expense reductions		(448,802)
Total expenses after expense reductions		1,336,208
Net investment income (loss)		**1,279,245**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments (including foreign taxes of $924)		(55,515,117)
Foreign currency		(248,995)
		(55,764,112)
Change in net unrealized appreciation (depreciation) on:		
Investments		(16,917,301)
Foreign currency		(5,809)
		(16,923,110)
Net gain (loss)		**(72,687,222)**
Net increase (decrease) in net assets resulting from operations	**$**	**(71,407,977)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 1,279,245	$ 1,371,727
Net realized gain (loss)	(55,764,112)	38,322,515
Change in net unrealized appreciation (depreciation)	(16,923,110)	(28,184,790)
Net increase (decrease) in net assets resulting from operations	(71,407,977)	11,509,452
Distributions to shareholders from:		
Net investment income:		
Class A	(1,766,760)	(976,630)
Class B	(79,972)	(67,864)
Net realized gains:		
Class A	(36,684,662)	(22,498,351)
Class B	(2,286,851)	(3,879,598)
Total distributions	(40,818,245)	(27,422,443)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	9,403,619	32,962,118
Reinvestment of distributions	38,451,422	23,474,981
Cost of shares redeemed	(34,733,222)	(33,544,797)
Net increase (decrease) in net assets from Class A share transactions	13,121,819	22,892,302
Class B		
Proceeds from shares sold	925,746	5,026,580
Reinvestment of distributions	2,366,823	3,947,462
Cost of shares redeemed	(2,548,724)	(22,340,318)
Net increase (decrease) in net assets from Class B share transactions	743,845	(13,366,276)
Increase (decrease) in net assets	(98,360,558)	(6,386,965)
Net assets at beginning of period	161,227,366	167,614,331
Net assets at end of period (including undistributed net investment income of $932,658 and $1,638,227, respectively)	**$ 62,866,808**	**$ 161,227,366**

Other Information		
Class A		
Shares outstanding at beginning of period	9,660,413	8,197,243
Shares sold	875,157	1,983,290
Shares issued to shareholders in reinvestment of distributions	3,769,747	1,533,310
Shares redeemed	(4,248,776)	(2,053,430)
Net increase (decrease) in Class A shares	396,128	1,463,170
Shares outstanding at end of period	**10,056,541**	**9,660,413**
Class B		
Shares outstanding at beginning of period	632,933	1,443,479
Shares sold	95,557	302,846
Shares issued to shareholders in reinvestment of distributions	231,135	257,164
Shares redeemed	(257,561)	(1,370,556)
Net increase (decrease) in Class B shares	69,131	(810,546)
Shares outstanding at end of period	**702,064**	**632,933**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$15.66**	**$17.39**	**$14.44**	**$11.78**	**$10.39**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.11	.14	.15[c]	.12	.04
Net realized and unrealized gain (loss)	(5.83)	.88	4.02	2.58	1.48
Total from investment operations	(5.72)	1.02	4.17	2.70	1.52
Less distributions from:					
Net investment income	(.19)	(.11)	(.09)	(.04)	(.13)
Net realized gains	(3.91)	(2.64)	(1.13)	—	—
Total distributions	(4.10)	(2.75)	(1.22)	(.04)	(.13)
Net asset value, end of period	**$ 5.84**	**$15.66**	**$17.39**	**$14.44**	**$11.78**
Total Return (%)[b]	(47.75)	6.29	30.14[c]	22.94	14.76
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	59	151	143	85	63
Ratio of expenses before expense reductions (%)	1.47	1.44	1.38	1.41	1.44
Ratio of expenses after expense reductions (%)	1.09	1.11	1.04	1.28	1.43
Ratio of net investment income (%)	1.09	.82	.92[c]	.98	.38
Portfolio turnover rate (%)	229	191	136	95	81

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 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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$15.66**	**$17.38**	**$14.43**	**$11.78**	**$10.38**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.07	.07	.09[c]	.07	.00[d]
Net realized and unrealized gain (loss)	(5.83)	.90	4.02	2.58	1.48
Total from investment operations	(5.76)	.97	4.11	2.65	1.48
Less distributions from:					
Net investment income	(.14)	(.05)	(.03)	—	(.08)
Net realized gains	(3.91)	(2.64)	(1.13)	—	—
Total distributions	(4.05)	(2.69)	(1.16)	—	(.08)
Net asset value, end of period	**$ 5.85**	**$15.66**	**$17.38**	**$14.43**	**$11.78**
Total Return (%)[b]	(47.87)	5.84	29.65[c]	22.50	14.33
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	4	10	25	20	13
Ratio of expenses before expense reductions (%)	1.82	1.81	1.76	1.79	1.84
Ratio of expenses after expense reductions (%)	1.45	1.47	1.43	1.65	1.83
Ratio of net investment income (%)	.73	.46	.53[c]	.61	.02
Portfolio turnover rate (%)	229	191	136	95	81

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 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.

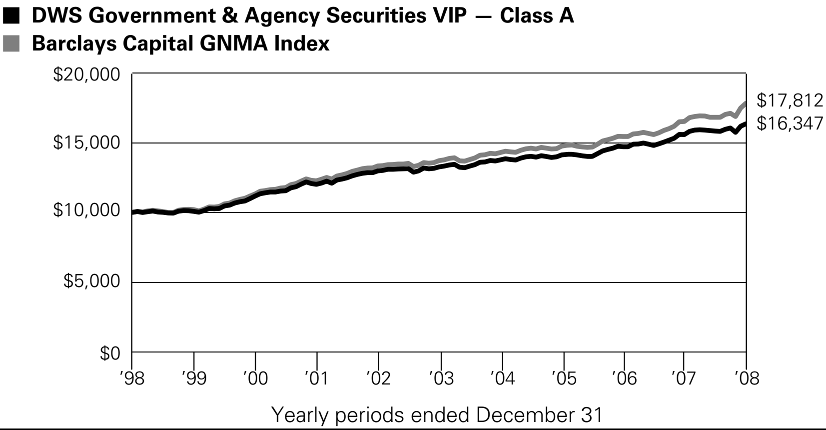
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.66% and 1.04% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

Risk Considerations

The guarantee on US Government Guaranteed Securities 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 Barclays Capital GNMA Index (name changed from Lehman Brothers GNMA Index, effective November 3, 2008) 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	$10,493	$11,581	$12,325	$16,347
	Average annual total return	4.93%	5.01%	4.27%	5.04%
Barclays Capital GNMA Index	Growth of $10,000	$10,787	$12,072	$13,001	$17,812
	Average annual total return	7.87%	6.48%	5.39%	5.94%

DWS Government & Agency Securities VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,460	$11,441	$12,090	$12,770
	Average annual total return	4.60%	4.59%	3.87%	3.83%
Barclays Capital GNMA Index	Growth of $10,000	$10,787	$12,072	$13,001	$13,928
	Average annual total return	7.87%	6.48%	5.39%	5.23%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,032.50	$1,030.80
Expenses Paid per $1,000*	$ 3.32	$ 5.00
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,021.87	$1,020.21
Expenses Paid per $1,000*	$ 3.30	$ 4.98

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Government & Agency Securities VIP	.65%	.98%

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

Throughout 2008, the fixed-income markets continued to deal with the fallout from the housing and credit crises, which led to the outright failure or forced mergers of numerous financial institutions in both the United States and Europe. In the first half of September alone, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) were placed into conservatorship by the government, leading investment bank Lehman Brothers failed and global insurance conglomerate AIG was bailed out by the US Treasury. This was followed shortly by the conversion of Morgan Stanley and Goldman Sachs to bank holding companies as they sought shelter from the credit market storm, and the Federal Deposit Insurance Corporation (FDIC) seizure and sale of certain operations to JPMorgan Chase of giant thrift Washington Mutual. As these events unfolded, the Bush administration won approval of a mammoth rescue package designed to unfreeze the credit markets. This failed, however, to prevent a credit crunch from spurring a dramatic slowdown in global economic growth late in the year. In this environment, investors' risk appetites evaporated and liquidity all but disappeared. This led to a frantic "flight to quality" into the safe haven of US Treasuries. Over the 12-month period, the US Federal Reserve Board (the Fed) cut the benchmark federal funds rate (the overnight rate banks charge when they borrow money from each other) from 4.25% to basically zero as it sought to provide market participants with liquidity.

During the 12-month period ended December 31, 2008, the Portfolio provided a total return of 4.93% (Class A shares, unadjusted for contract charges) compared with the 7.87% return of its benchmark, the Barclays Capital GNMA Index.

The Portfolio's underweight position of 15-year mortgages and relatively long-duration profile helped performance in a declining rate environment.[1] Concentration on lower-coupon mortgage-backed securities was the principal constraint on performance during the year. We purchased these lower coupons, expecting falling interest rates to result in a pickup in prepayments on higher-coupon issues. The Portfolio's modest exposure to Fannie Mae and Freddie Mac securities also held back performance to a degree, as risk-averse investors favored the explicit government guarantee offered by GNMAs. As the period progressed, the Portfolio's holdings of securities selling at a discount to their par value began to add to performance as falling market interest rates caused previously issued mortgage-backed securities to trade at a premium. Late in the year, our focus on lower coupons and managing prepayment risk began to be rewarded as well. We believe the Portfolio is well positioned going into the new fiscal period given the Fed's focus on lowering borrowing rates. 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   Matthew F. MacDonald, CFA
Co-Managers, Deutsche Investment Management Americas Inc.

The Barclays Capital GNMA Index (name changed from Lehman Brothers GNMA Index, effective November 3, 2008) 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.

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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Government & Agency Securities VIP

Asset Allocation (As a % of Investment Portfolio)	**12/31/08**	**12/31/07**
Mortgage-Backed Securities Pass-Throughs	65%	72%
Collateralized Mortgage Obligation	17%	13%
Government & Agency Obligations	14%	13%
Cash Equivalents	4%	2%
	100%	100%

Credit Quality	**12/31/08**	**12/31/07**
US Government and Agencies	92%	97%
AAA*	6%	—
Not Rated	2%	3%

* *Includes cash equivalents*

Interest Rate Sensitivity	**12/31/08**	**12/31/07**
Effective Maturity	3.4 years	5.9 years
Average Duration	1.0 years	3.5 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 95. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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

DWS Government & Agency Securities VIP

	Principal Amount ($)	Value ($)
Mortgage-Backed Securities Pass-Throughs 69.2%		
Federal Home Loan Mortgage Corp.:		
4.5%, 5/1/2019	44,621	45,844
5.0%, 1/1/2034 (c)	20,000,000	20,404,688
5.5%, 2/1/2017	37,677	38,903
6.5%, 9/1/2032	189,450	145,633
7.0%, with various maturities from 6/1/2032 until 8/1/2035	504,374	515,104
8.5%, 7/1/2030	2,336	2,520
Federal National Mortgage Association:		
5.0%, 10/1/2033	574,489	588,291
6.0%, 2/1/2035	20,000,000	20,604,688
6.5%, 1/1/2038	1,808,719	1,882,128
7.0%, 9/1/2013	443	456
8.0%, 12/1/2024	11,264	11,923
Government National Mortgage Association:		
4.5%, 1/1/2033 (c)	2,000,000	2,025,625
5.0%, with various maturities from 5/20/2023 until 8/20/2035 (c)	5,664,211	5,862,401
5.5%, with various maturities from 10/15/2032 until 3/15/2038 (c)	35,855,560	37,140,094
6.0%, with various maturities from 4/15/2013 until 10/15/2038 (c)	41,366,311	42,859,746
6.5%, with various maturities from 3/15/2014 until 6/15/2038	9,644,836	10,081,964
7.0%, with various maturities from 10/15/2026 until 11/15/2038	7,393,887	7,727,443
7.5%, with various maturities from 4/15/2026 until 1/15/2037	1,811,941	1,905,820
9.5%, with various maturities from 7/15/2016 until 12/15/2022	49,601	55,217
10.0%, with various maturities from 2/15/2016 until 3/15/2016	15,141	17,008
Total Mortgage-Backed Securities Pass-Throughs (Cost $148,889,475)		**151,915,496**

	Principal Amount ($)	Value ($)
Collateralized Mortgage Obligations 18.4%		
FannieMae Grantor Trust, “A2”, Series 2001-T10, 7.5%, 12/25/2041	250,961	258,352
FannieMae Whole Loan, “3A”, Series 2004-W8, 7.5%, 6/25/2044	965,400	997,563
Federal Home Loan Mortgage Corp.:		
“AF”, Series 2892, 1.495%*, 5/15/2021	951,179	942,110
“FT”, Series 3346, 1.545%*, 10/15/2033	2,553,325	2,447,389
“FA”, Series 3237, 1.545%*, 11/15/2036	779,088	752,295
“FP”, Series 3069, 1.695%*, 6/15/2035	888,343	865,495
“GZ”, Series 2906, 5.0%, 9/15/2034	1,526,119	1,451,696
“SL”, Series 2882, Interest Only, 6.005%**, 10/15/2034	1,198,123	122,709
“1A1”, Series T-59, 6.5%, 10/25/2043	1,851,610	1,882,639
“ST”, Series 2411, Interest Only, 7.328%**, 6/15/2021	4,075,291	382,489
Federal National Mortgage Association:		
“LO”, Series 2005-50, Principal Only, Zero Coupon, 6/25/2035	1,077,541	998,804
“ZA”, Series 2008-24, 5.0%, 4/25/2038	545,024	499,220
“AN”, Series 2007-108, 8.897%*, 11/25/2037	2,384,358	2,531,881
Government National Mortgage Association:		
“OD”, Series 2006-36, Principal Only, Zero Coupon, 7/16/2036	446,272	388,427
“FH”, Series 2007-33, 0.808%*, 6/20/2037	889,933	888,011
“FH”, Series 1999-18, 1.29%*, 5/16/2029	2,422,481	2,299,383
“FE”, Series 2003-57, 1.34%*, 3/16/2033	151,058	147,481
“FB”, Series 2001-28, 1.54%*, 6/16/2031	669,043	654,816
“GD”, Series 2004-26, 5.0%, 11/16/2032	2,184,000	2,226,696
“LG”, Series 2003-70, 5.0%, 8/20/2033	4,000,000	3,945,196
“KE”, Series 2004-19, 5.0%, 3/16/2034	500,000	492,666
“ZM”, Series 2004-24, 5.0%, 4/20/2034	1,893,285	1,820,810
“LE”, Series 2004-87, 5.0%, 10/20/2034	1,000,000	974,975
“ZB”, Series 2005-15, 5.0%, 2/16/2035	1,331,863	1,273,383
“CK”, Series 2007-31, 5.0%, 5/16/2037	1,000,000	1,006,963
“SF”, Series 2002-63, Interest Only, 5.24%**, 9/16/2032	2,876,291	275,938
“SP”, Series 2005-61, Interest Only, 5.24%**, 8/16/2035	1,354,699	89,702
“ZB”, Series 2003-85, 5.5%, 10/20/2033	2,537,410	2,382,871
“B”, Series 2005-88, 5.5%, 11/20/2035	1,804,000	1,781,773
“ZA”, Series 2006-7, 5.5%, 2/20/2036	1,985,966	1,890,512
“SA”, Series 2002-65, Interest Only, 5.743%**, 9/20/2032	4,298,014	490,845
“SB”, Series 2008-36, Interest Only, 5.763%**, 4/20/2038	2,593,928	112,725
“PH” Series 2002- 84, 6.0%, 11/16/2032	500,000	507,573
“SY”, Series 2004-47, Interest Only, 6.02%**, 1/16/2034	1,125,608	101,382
“NS”, Series 2007-72, Interest Only, 6.023%**, 11/20/2037	731,067	29,374
“SJ”, Series 2004-22, Interest Only, 6.093%**, 4/20/2034	6,328,976	331,472

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

	Principal Amount ($)	Value ($)
"SN", Series 2005-68, Interest Only, 6.239%**, 1/17/2034	4,461,935	258,385
"GS", Series 2006-16, Interest Only, 6.483%**, 4/20/2036	1,392,668	111,770
"KS", Series 2004-96, Interest Only, 6.493%**, 7/20/2034	725,086	49,040
"PB", Series 2001-53, 6.5%, 11/20/2031	1,500,000	1,590,274
"QS", Series 2003-34, Interest Only, 6.643%**, 3/20/2033	573,654	58,086
"SJ", Series 1999-43, Interest Only, 6.96%**, 11/16/2029	334,974	35,423
Total Collateralized Mortgage Obligations (Cost $38,952,258)		**40,348,594**

Government & Agency Obligations 15.3%

US Government Sponsored Agencies 10.6%

	Principal Amount ($)	Value ($)
Federal Home Loan Bank, 3.625%, 9/16/2011	20,000,000	21,162,160
Federal National Mortgage Association, 8.45%*, 2/27/2023	2,000,000	2,000,000
		23,162,160

US Treasury Obligations 4.7%

	Principal Amount ($)	Value ($)
US Treasury Bill:		
0.04%***, 5/21/2009 (a)	75,000	74,978
0.17%***, 1/15/2009 (a)	912,000	911,996
US Treasury Inflation-Indexed Notes:		
0.625%, 4/15/2013	1,024,970	979,968
3.875%, 1/15/2009	7,926,000	7,864,700
US Treasury Note, 3.375%, 7/31/2013	500,000	546,133
		10,377,775
Total Government & Agency Obligations (Cost $33,377,285)		**33,539,935**

Cash Equivalents 4.9%

	Shares	Value ($)
Cash Management QP Trust, 1.42% (b) (Cost $10,642,753)	10,642,753	**10,642,753**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $231,861,771)†	107.8	**236,446,778**
Other Assets and Liabilities, Net	(7.8)	**(17,185,662)**
Net Assets	100.0	**219,261,116**

* *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, 2008.*

** *These securities are shown at their current rate as of December 31, 2008.*

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

† *The cost for federal income tax purposes was $231,862,148. At December 31, 2008, net unrealized appreciation for all securities based on tax cost was $4,584,630. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $5,175,130 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $590,500.*

(a) *At December 31, 2008, 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.*

(c) *When-issued or delayed delivery securities included.*

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

At December 31, 2008, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation ($)
2 Year US Treasury Note	3/31/2009	78	16,743,406	17,008,875	**265,469**

At December 31, 2008, open futures contracts sold were as follows:

Futures	Expiration Date	Contracts	Aggregate Face Value ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year US Treasury Note	3/20/2009	428	50,187,097	53,821,000	(3,633,903)
5 Year US Treasury Note	3/31/2009	19	2,280,244	2,262,039	18,205
Total net unrealized depreciation					**(3,615,698)**

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.

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities	Other Financial Instruments††
Level 1	$ —	$ (3,350,229)
Level 2	236,446,778	—
Level 3	—	—
Total	**$ 236,446,778**	**$ (3,350,229)**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as futures contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments		
Investments in securities, at value (cost $221,219,018)	$	225,804,025
Investments in Cash Management QP Trust (cost $10,642,753)		10,642,753
Total investments, at value (cost $231,861,771)		236,446,778
Cash		2,011,444
Receivable for investments sold		71,866,161
Receivable for daily variation margin on open futures contracts		669,720
Interest receivable		1,359,903
Other assets		5,882
Total assets		312,359,888

Liabilities		
Payable for when-issued and delayed delivery securities purchased		68,551,647
Payable for investments purchased		23,239,470
Payable for Portfolio shares redeemed		993,689
Accrued management fee		77,681
Other accrued expenses and payables		236,285
Total liabilities		93,098,772
Net assets, at value	**$**	**219,261,116**

Net Assets Consist of		
Undistributed net investment income		9,842,645
Net unrealized appreciation (depreciation) on:		
Investments		4,585,007
Futures		(3,350,229)
Accumulated net realized gain (loss)		(3,129,170)
Paid-in capital		211,312,863
Net assets, at value	**$**	**219,261,116**
Class A		
Net Asset Value, offering and redemption price per share ($211,348,740 ÷ 17,044,556 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.40**
Class B		
Net Asset Value, offering and redemption price per share ($7,912,376 ÷ 639,523 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.37**

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Interest	$	11,096,939
Interest — Cash Management QP Trust		202,323
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		11,566
Total Income		11,310,828
Expenses:		
Management fee		1,045,390
Administration fee		143,349
Custodian fee		18,692
Distribution service fee (Class B)		18,374
Services to shareholders		674
Record keeping fees (Class B)		7,043
Professional fees		85,762
Trustees' fees and expenses		18,411
Reports to shareholders and shareholder meeting		105,985
Other		15,728
Total expenses before expense reductions		1,459,408
Expense reductions		(21,069)
Total expenses after expense reductions		1,438,339
Net investment income		**9,872,489**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		2,090,535
Futures		(2,538,655)
		(448,120)
Change in net unrealized appreciation (depreciation) on:		
Investments		3,918,330
Futures		(3,141,054)
		777,276
Net gain (loss)		**329,156**
Net increase (decrease) in net assets resulting from operations	**$**	**10,201,645**

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, 2008	2007
Operations:		
Net investment income	$ 9,872,489	$ 10,439,394
Net realized gain (loss)	(448,120)	(1,286,321)
Change in net unrealized appreciation (depreciation)	777,276	3,273,665
Net increase (decrease) in net assets resulting from operations	10,201,645	12,426,738
Distributions to shareholders from:		
Net investment income:		
Class A	(9,943,580)	(10,212,645)
Class B	(313,588)	(1,469,899)
Total distributions	(10,257,168)	(11,682,544)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	78,211,163	30,397,968
Reinvestment of distributions	9,943,580	10,212,645
Cost of shares redeemed	(75,825,560)	(53,955,468)
Net increase (decrease) in net assets from Class A share transactions	12,329,183	(13,344,855)
Class B		
Proceeds from shares sold	7,001,909	9,440,856
Reinvestment of distributions	313,588	1,469,899
Cost of shares redeemed	(4,358,212)	(38,336,134)
Net increase (decrease) in net assets from Class B share transactions	2,957,285	(27,425,379)
Increase (decrease) in net assets	15,230,945	(40,026,040)
Net assets at beginning of period	204,030,171	244,056,211
Net assets at end of period (including undistributed net investment income of $9,842,645 and $10,227,324, respectively)	**$ 219,261,116**	**$ 204,030,171**

Other Information		
Class A		
Shares outstanding at beginning of period	16,080,508	17,174,275
Shares sold	6,375,775	2,509,518
Shares issued to shareholders in reinvestment of distributions	823,144	862,554
Shares redeemed	(6,234,871)	(4,465,839)
Net increase (decrease) in Class A shares	964,048	(1,093,767)
Shares outstanding at end of period	**17,044,556**	**16,080,508**
Class B		
Shares outstanding at beginning of period	403,813	2,706,547
Shares sold	569,092	788,569
Shares issued to shareholders in reinvestment of distributions	25,938	124,042
Shares redeemed	(359,320)	(3,215,345)
Net increase (decrease) in Class B shares	235,710	(2,302,734)
Shares outstanding at end of period	**639,523**	**403,813**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$12.38**	**$12.28**	**$12.26**	**$12.55**	**$12.54**
Income (loss) from investment operations:					
Net investment income[a]	.56	.58	.55	.51	.44
Net realized and unrealized gain (loss)	.04	.12	(.06)	(.20)	.03
Total from investment operations	.60	.70	.49	.31	.47
Less distributions from:					
Net investment income	(.58)	(.60)	(.47)	(.50)	(.35)
Net realized gains	—	—	—	(.10)	(.11)
Total distributions	(.58)	(.60)	(.47)	(.60)	(.46)
Net asset value, end of period	**$12.40**	**$12.38**	**$12.28**	**$12.26**	**$12.55**
Total Return (%)	4.93[b]	5.95[b]	4.16	2.57	3.75
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	211	199	211	243	280
Ratio of expenses before expense reductions (%)	.66	.66	.67	.63	.61
Ratio of expenses after expense reductions (%)	.65	.63	.67	.63	.61
Ratio of net investment income (loss) (%)	4.58	4.77	4.56	4.17	3.59
Portfolio turnover rate (%)	543	465	241	191	226

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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$12.35**	**$12.25**	**$12.23**	**$12.52**	**$12.51**
Income (loss) from investment operations:					
Net investment income[a]	.52	.53	.50	.47	.40
Net realized and unrealized gain (loss)	.03	.12	(.06)	(.21)	.02
Total from investment operations	.55	.65	.44	.26	.42
Less distributions from:					
Net investment income	(.53)	(.55)	(.42)	(.45)	(.30)
Net realized gains	—	—	—	(.10)	(.11)
Total distributions	(.53)	(.55)	(.42)	(.55)	(.41)
Net asset value, end of period	**$12.37**	**$12.35**	**$12.25**	**$12.23**	**$12.52**
Total Return (%)	4.60[b]	5.43[b]	3.74	2.24	3.36
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	8	5	33	47	49
Ratio of expenses before expense reductions (%)	1.00	1.04	1.07	1.02	1.00
Ratio of expenses after expense reductions (%)	1.00	1.01	1.07	1.02	1.00
Ratio of net investment income (%)	4.24	4.39	4.16	3.78	3.21
Portfolio turnover rate (%)	543	465	241	191	226

a *Based on average shares outstanding during the period.*

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

Performance Summary

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.

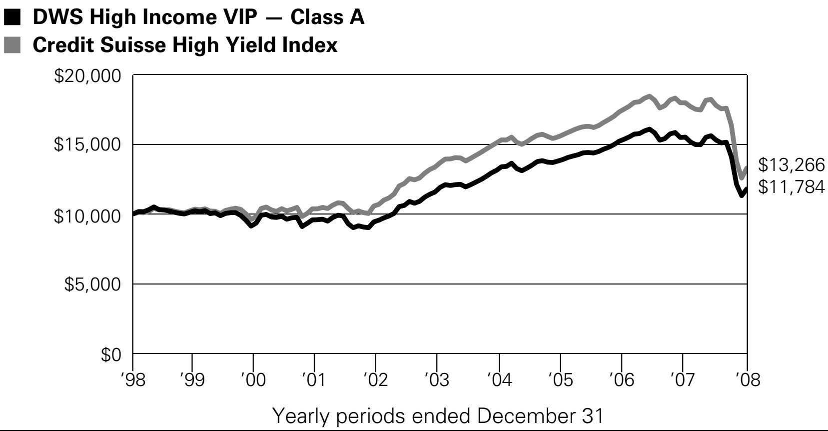
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.69% and 0.94% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

Risk Considerations

Investing in foreign securities presents certain risks, 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.

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 High Income VIP



The Credit Suisse High Yield Index is an unmanaged, trader-priced portfolio constructed to mirror the global high-yield debt 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 High Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$7,606	$8,483	$9,907	$11,784
	Average annual total return	–23.94%	–5.34%	–.19%	1.66%
Credit Suisse High Yield Index	Growth of $10,000	$7,383	$8,481	$9,710	$13,266
	Average annual total return	–26.17%	–5.34%	–.59%	2.87%

DWS High Income VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$7,587	$8,400	$9,736	$12,388
	Average annual total return	–24.13%	–5.65%	–.53%	3.35%
Credit Suisse High Yield Index	Growth of $10,000	$7,383	$8,481	$9,710	$12,787
	Average annual total return	–26.17%	–5.34%	–.59%	3.85%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 771.00	$ 771.30
Expenses Paid per $1,000*	$ 3.52	$ 4.59

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,021.17	$1,019.96
Expenses Paid per $1,000*	$ 4.01	$ 5.23

* *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 366.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS High Income VIP	.79%	1.03%

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, 2008

DWS High Income VIP

High-yield bonds were particularly vulnerable to the crosscurrents affecting the broader financial system in 2008, producing a negative absolute return and underperforming the broader bond market by a wide margin. First, concerns about a sharp economic slowdown fueled speculation that the high-yield default rate would move considerably higher. Second, the financial crisis caused a number of corporations to lose access to credit — at least temporarily — an issue of particular importance for companies in the high-yield sector. And third, forced selling by institutional investors put additional pressure on bond prices. While the market recovered somewhat in December, the Credit Suisse High Yield Index, the Portfolio's benchmark, finished the year with a return of –26.17%. Class A shares of the Portfolio outperformed its benchmark with a return of –23.94% (unadjusted for contract charges).

From a sector standpoint, the Portfolio benefited from its above-benchmark weightings in less cyclical groups such as health care, utilities and wireless telecommunication. Among individual securities, some of the leading contributors to performance were Charter Communications Operating LLC; Kansas City Southern Railway Co.; and DRS Technologies, Inc., a defense-related firm that was bid for by the investment-grade-rated company Finmeccanica SpA. Notable detractors included Lyondell Chemical Co.*, Young Broadcasting, Inc. and Hawker Beechcraft Acquisition Co., LLC.

We believe a cautious investment approach remains necessary in the current environment. Given the uncertainty in the global financial markets, we believe that the key to outperformance throughout 2009 will be the avoidance of individual credit defaults. We continue to focus carefully on research and the fundamental credit strength of issuers in the Portfolio in order to minimize default risk to the greatest extent possible.

Gary Sullivan, CFA
Portfolio Manager, Deutsche Investment Management Americas Inc.

The Credit Suisse High Yield Index is an unmanaged, trader-priced portfolio constructed to mirror the global high-yield debt market. Index returns, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

* *Not held in the Portfolio as of December 31, 2008.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS High Income VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	12/31/08	12/31/07
Corporate Bonds	84%	89%
Cash Equivalents	9%	3%
Loan Participations and Assignments	7%	7%
Other Investments	—	1%
	100%	100%

Sector Diversification (Excludes Cash Equivalents and Securities Lending Collateral)	12/31/08	12/31/07
Energy	15%	11%
Consumer Discretionary	13%	22%
Materials	12%	11%
Telecommunication Services	12%	8%
Utilities	11%	7%
Financials	10%	14%
Industrials	10%	13%
Health Care	9%	6%
Consumer Staples	4%	4%
Information Technology	4%	4%
	100%	100%

Quality (Excludes Securities Lending Collateral)	12/31/08	12/31/07
Cash Equivalents	8%	3%
BBB	12%	4%
BB	35%	29%
B	31%	51%
CCC	7%	13%
CC	3%	—
D	1%	—
Not Rated	3%	—
	100%	100%

Effective Maturity (Excludes Cash Equivalents and Securities Lending Collateral)	12/31/08	12/31/07
Under 1 year	5%	6%
1–4.99 years	41%	32%
5–9.99 years	50%	56%
10–14.99 years	1%	2%
15 years or greater	3%	4%
	100%	100%

Interest Rate Sensitivity	12/31/08	12/31/07
Effective maturity	5.6 years	6.2 years
Average duration	3.7 years	4.1 years

Asset allocation, sector diversification, quality, effective maturity and interest rate sensitivity are subject to change.

For more complete details about the Portfolio's investment portfolio, see page 104. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 81.9%			
Consumer Discretionary 10.8%			
AMC Entertainment, Inc., 8.0%, 3/1/2014		740,000	455,100
American Achievement Corp., 144A, 8.25%, 4/1/2012		255,000	196,350
American Achievement Group Holding Corp., 16.75%, 10/1/2012 (PIK)		404,107	96,986
Asbury Automotive Group, Inc.:			
7.625%, 3/15/2017		590,000	274,350
8.0%, 3/15/2014		250,000	118,750
Ashtead Holdings PLC, 144A, 8.625%, 8/1/2015		380,000	199,500
CanWest MediaWorks LP, 144A, 9.25%, 8/1/2015		340,000	129,200
Carrols Corp., 9.0%, 1/15/2013		225,000	151,875
Charter Communications Operating LLC, 144A, 10.875%, 9/15/2014		1,085,000	868,000
CSC Holdings, Inc.:			
6.75%, 4/15/2012		355,000	324,825
Series B, 7.625%, 4/1/2011		355,000	334,587
Series B, 8.125%, 7/15/2009		125,000	124,375
Series B, 8.125%, 8/15/2009		345,000	343,275
Denny's Holdings, Inc., 10.0%, 10/1/2012		165,000	114,263
DIRECTV Holdings LLC, 7.625%, 5/15/2016		1,055,000	1,023,350
Dollarama Group LP, 8.073%***, 8/15/2012 (b)		347,000	220,345
EchoStar DBS Corp.:			
6.375%, 10/1/2011		555,000	516,150
6.625%, 10/1/2014		665,000	555,275
7.125%, 2/1/2016		465,000	388,275
Fontainebleau Las Vegas Holdings LLC, 144A, 10.25%, 6/15/2015		490,000	47,775
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015		505,000	343,400
Group 1 Automotive, Inc., 8.25%, 8/15/2013		250,000	167,500
Hertz Corp., 8.875%, 1/1/2014		1,340,000	824,100
Idearc, Inc., 8.0%, 11/15/2016		920,000	69,000
Indianapolis Downs LLC, 144A, 11.0%, 11/1/2012		330,000	179,850
Isle of Capri Casinos, Inc., 7.0%, 3/1/2014		425,000	180,625
Kabel Deutschland GmbH, 10.625%, 7/1/2014		620,000	551,800
Lamar Media Corp., Series C, 6.625%, 8/15/2015		295,000	213,137
Liberty Media LLC, 5.7%, 5/15/2013		95,000	62,280
MediMedia USA, Inc., 144A, 11.375%, 11/15/2014		255,000	153,000
MGM MIRAGE:			
6.625%, 7/15/2015		410,000	250,100
8.375%, 2/1/2011		425,000	252,875
MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010		630,000	472,500
Norcraft Holdings LP, 9.75%, 9/1/2012		1,385,000	1,031,825
Penske Automotive Group, Inc., 7.75%, 12/15/2016		905,000	420,825
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013		300,000	237,000
Quebecor Media, Inc., 7.75%, 3/15/2016		290,000	195,750
Quebecor World, Inc., 144A, 9.75%, 1/15/2015**		420,000	33,075
Quiksilver, Inc., 6.875%, 4/15/2015		405,000	130,613
Reader's Digest Association, Inc., 9.0%, 2/15/2017		350,000	30,188
Sabre Holdings Corp., 8.35%, 3/15/2016		460,000	102,350
Seminole Hard Rock Entertainment, Inc., 144A, 4.496%***, 3/15/2014		590,000	299,425
Shaw Communications, Inc., 8.25%, 4/11/2010		605,000	595,925
Shingle Springs Tribal Gaming Authority, 144A, 9.375%, 6/15/2015		370,000	185,000
Simmons Co., Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014		1,655,000	190,325
Sinclair Television Group, Inc., 8.0%, 3/15/2012 (c)		367,000	276,167
Sirius XM Radio, Inc., 9.625%, 8/1/2013		860,000	160,175
Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013		490,000	182,525
Travelport LLC:			
6.828%***, 9/1/2014		390,000	115,050
9.875%, 9/1/2014		65,000	24,375
Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015		105,000	13,913
United Components, Inc., 9.375%, 6/15/2013		80,000	33,600
Unity Media GmbH:			
144A, 8.75%, 2/15/2015	EUR	785,000	856,583
144A, 10.375%, 2/15/2015		255,000	198,262
UPC Holding BV:			
144A, 7.75%, 1/15/2014	EUR	365,000	388,136
144A, 8.0%, 11/1/2016	EUR	190,000	183,556
Vertis, Inc., 13.5%, 4/1/2014 (PIK)		200,357	46,743
Vitro SAB de CV, 9.125%, 2/1/2017		1,470,000	441,000
Young Broadcasting, Inc., 8.75%, 1/15/2014		2,040,000	20,400
			16,595,559
Consumer Staples 3.4%			
Alliance One International, Inc., 8.5%, 5/15/2012		250,000	183,750
Altria Group, Inc.:			
8.5%, 11/10/2013		330,000	341,796
9.7%, 11/10/2018		165,000	178,337
Delhaize America, Inc.:			
8.05%, 4/15/2027		190,000	175,829
9.0%, 4/15/2031		917,000	927,381
General Nutrition Centers, Inc., 7.584%***, 3/15/2014 (PIK)		280,000	156,800

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

	Principal Amount ($)(a)	Value ($)
North Atlantic Trading Co., 144A, 10.0%, 3/1/2012	2,081,750	1,144,963
Smithfield Foods, Inc., 7.75%, 7/1/2017	145,000	82,650
Viskase Companies, Inc., 11.5%, 6/15/2011	3,100,000	2,015,000
		5,206,506
Energy 11.1%		
Atlas Energy Resources LLC, 144A, 10.75%, 2/1/2018	845,000	515,450
Belden & Blake Corp., 8.75%, 7/15/2012	2,050,000	1,404,250
Bristow Group, Inc., 7.5%, 9/15/2017	450,000	301,500
Chaparral Energy, Inc., 8.5%, 12/1/2015	600,000	120,000
Chesapeake Energy Corp.:		
6.25%, 1/15/2018	525,000	388,500
6.875%, 1/15/2016	1,166,000	932,800
7.25%, 12/15/2018	800,000	624,000
7.5%, 6/15/2014	180,000	152,100
Cimarex Energy Co., 7.125%, 5/1/2017	370,000	288,600
Colorado Interstate Gas Co., 6.8%, 11/15/2015	220,000	189,528
Delta Petroleum Corp., 7.0%, 4/1/2015	715,000	143,000
Dynegy Holdings, Inc., 6.875%, 4/1/2011	195,000	170,625
El Paso Corp.:		
7.25%, 6/1/2018	985,000	781,767
7.75%, 6/15/2010	165,000	152,950
9.625%, 5/15/2012	320,000	271,715
EXCO Resources, Inc., 7.25%, 1/15/2011	580,000	452,400
Forest Oil Corp., 144A, 7.25%, 6/15/2019	210,000	153,300
Frontier Oil Corp.:		
6.625%, 10/1/2011	330,000	298,650
8.5%, 9/15/2016	575,000	507,437
GulfSouth Pipeline Co., LP, 144A, 5.75%, 8/15/2012	100,000	89,398
KCS Energy, Inc., 7.125%, 4/1/2012	1,495,000	1,121,250
Mariner Energy, Inc.:		
7.5%, 4/15/2013	305,000	195,200
8.0%, 5/15/2017	470,000	244,400
Newfield Exploration Co., 7.125%, 5/15/2018	640,000	505,600
OPTI Canada, Inc., 8.25%, 12/15/2014	1,025,000	553,500
Petrohawk Energy Corp.:		
144A, 7.875%, 6/1/2015	220,000	162,800
9.125%, 7/15/2013	450,000	364,500
Plains Exploration & Production Co.:		
7.0%, 3/15/2017	220,000	150,700
7.625%, 6/1/2018	720,000	493,200
Quicksilver Resources, Inc., 7.125%, 4/1/2016	1,040,000	556,400
Range Resources Corp., 7.25%, 5/1/2018	65,000	54,275
SandRidge Energy, Inc., 144A, 8.0%, 6/1/2018	285,000	158,175
Southwestern Energy Co., 144A, 7.5%, 2/1/2018	585,000	511,875

		Principal Amount ($)(a)	Value ($)
Stone Energy Corp.:			
6.75%, 12/15/2014		590,000	289,100
8.25%, 12/15/2011		1,285,000	796,700
Tennessee Gas Pipeline Co., 7.625%, 4/1/2037		165,000	130,968
Tesoro Corp., 6.5%, 6/1/2017		425,000	233,219
Whiting Petroleum Corp.:			
7.0%, 2/1/2014		500,000	352,500
7.25%, 5/1/2012		545,000	406,025
7.25%, 5/1/2013		140,000	99,400
Williams Companies, Inc.:			
8.125%, 3/15/2012		1,040,000	958,100
8.75%, 3/15/2032		810,000	603,450
Williams Partners LP, 7.25%, 2/1/2017		420,000	331,800
			17,211,107
Financials 8.1%			
Algoma Acquisition Corp., 144A, 9.875%, 6/15/2015		925,000	351,500
Ashton Woods USA LLC, 9.5%, 10/1/2015**		1,370,000	274,000
Buffalo Thunder Development Authority, 144A, 9.375%, 12/15/2014		250,000	50,000
Conproca SA de CV, REG S, 12.0%, 6/16/2010		1,648,035	1,676,876
Ford Motor Credit Co., LLC:			
7.25%, 10/25/2011		2,665,000	1,946,806
7.875%, 6/15/2010		1,015,000	812,183
GMAC LLC, 144A, 6.875%, 9/15/2011		2,118,000	1,513,459
Hawker Beechcraft Acquisition Co., LLC: 8.5%, 4/1/2015		1,035,000	424,350
8.875%, 4/1/2015 (PIK)		895,000	304,300
Hexion US Finance Corp., 9.75%, 11/15/2014		205,000	58,425
Inmarsat Finance PLC, 10.375%, 11/15/2012		820,000	726,725
iPayment, Inc., 9.75%, 5/15/2014		475,000	237,500
Local TV Finance LLC, 144A, 9.25%, 6/15/2015 (PIK)		430,000	94,600
New ASAT (Finance) Ltd., 9.25%, 2/1/2011		575,000	60,375
NiSource Finance Corp.:			
6.15%, 3/1/2013		50,000	38,527
7.875%, 11/15/2010		745,000	681,742
Orascom Telecom Finance SCA, 144A, 7.875%, 2/8/2014		370,000	196,100
Qwest Capital Funding, Inc., 7.0%, 8/3/2009		355,000	347,900
Rainbow National Services LLC, 144A, 10.375%, 9/1/2014		112,000	99,680
Sprint Capital Corp.:			
7.625%, 1/30/2011		360,000	300,600
8.375%, 3/15/2012		145,000	116,000
Tropicana Entertainment LLC, 9.625%, 12/15/2014**		1,220,000	12,200
UCI Holdco, Inc., 9.996%***, 12/15/2013 (PIK)		639,775	108,762
Universal City Development Partners, 11.75%, 4/1/2010		2,125,000	1,370,625
Wind Acquisition Finance SA:			
144A, 9.75%, 12/1/2015	EUR	570,000	645,747
144A, 10.75%, 12/1/2015		85,000	73,100
			12,522,082

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	Principal Amount ($)(a)	Value ($)
Health Care 6.4%		
Advanced Medical Optics, Inc., 7.5%, 5/1/2017	560,000	285,600
Boston Scientific Corp., 6.0%, 6/15/2011	520,000	494,000
Community Health Systems, Inc., 8.875%, 7/15/2015	2,865,000	2,635,800
HCA, Inc.:		
9.125%, 11/15/2014	760,000	704,900
9.25%, 11/15/2016	2,040,000	1,871,700
9.625%, 11/15/2016 (PIK)	770,000	600,600
HEALTHSOUTH Corp., 10.75%, 6/15/2016	290,000	266,075
IASIS Healthcare LLC, 8.75%, 6/15/2014	525,000	406,875
Psychiatric Solutions, Inc., 7.75%, 7/15/2015	420,000	308,700
Surgical Care Affiliates, Inc., 144A, 8.875%, 7/15/2015 (PIK)	515,000	314,150
The Cooper Companies, Inc., 7.125%, 2/15/2015	840,000	705,600
Vanguard Health Holding Co. I, LLC, Step-up Coupon, 0% to 10/1/2009, 11.25% to 10/1/2015	455,000	357,175
Vanguard Health Holding Co. II, LLC, 9.0%, 10/1/2014	1,095,000	914,325
		9,865,500
Industrials 9.1%		
Actuant Corp., 6.875%, 6/15/2017	300,000	225,750
Allied Waste North America, Inc., 6.5%, 11/15/2010	250,000	241,250
ARAMARK Corp., 8.5%, 2/1/2015 (c)	140,000	126,700
Baldor Electric Co., 8.625%, 2/15/2017 (c)	380,000	283,100
BE Aerospace, Inc., 8.5%, 7/1/2018	300,000	270,000
Belden, Inc., 7.0%, 3/15/2017	420,000	315,000
Browning-Ferris Industries, Inc., 7.4%, 9/15/2035	1,405,000	1,159,080
Congoleum Corp., 8.625%, 8/1/2008**	1,200,000	900,000
DRS Technologies, Inc.:		
6.625%, 2/1/2016	45,000	45,000
6.875%, 11/1/2013	590,000	587,050
7.625%, 2/1/2018	1,450,000	1,450,000
Esco Corp.:		
144A, 5.871%***, 12/15/2013	430,000	275,200
144A, 8.625%, 12/15/2013	610,000	427,000
General Cable Corp.:		
6.258%***, 4/1/2015	505,000	236,087
7.125%, 4/1/2017	400,000	264,000
Great Lakes Dredge & Dock Co., 7.75%, 12/15/2013	300,000	231,375
K. Hovnanian Enterprises, Inc., 8.875%, 4/1/2012	435,000	126,150
Kansas City Southern de Mexico SA de CV:		
7.375%, 6/1/2014	500,000	409,100
7.625%, 12/1/2013	1,085,000	889,700
9.375%, 5/1/2012	1,075,000	983,625
Kansas City Southern Railway Co., 8.0%, 6/1/2015	655,000	517,450
Mobile Mini, Inc., 9.75%, 8/1/2014	420,000	298,200
Moog, Inc., 144A, 7.25%, 6/15/2018	140,000	112,000
Navios Maritime Holdings, Inc., 9.5%, 12/15/2014	605,000	335,775
Ply Gem Industries, Inc., 11.75%, 6/15/2013 (c)	250,000	135,000
R.H. Donnelley Corp., Series A-4, 8.875%, 10/15/2017	1,185,000	177,750
RBS Global, Inc. & Rexnord Corp., 9.5%, 8/1/2014	335,000	249,575
Seitel, Inc., 9.75%, 2/15/2014	210,000	75,600
Titan International, Inc., 8.0%, 1/15/2012	1,190,000	880,600
TransDigm, Inc., 7.75%, 7/15/2014	260,000	213,200
United Rentals North America, Inc.:		
6.5%, 2/15/2012	735,000	580,650
7.0%, 2/15/2014	985,000	600,850
US Concrete, Inc., 8.375%, 4/1/2014	470,000	253,800
Vought Aircraft Industries, Inc., 8.0%, 7/15/2011	250,000	168,750
		14,044,367
Information Technology 3.4%		
Alion Science & Technology Corp., 10.25%, 2/1/2015	390,000	175,988
L-3 Communications Corp.:		
5.875%, 1/15/2015	1,280,000	1,152,000
Series B, 6.375%, 10/15/2015	705,000	659,175
7.625%, 6/15/2012	1,055,000	1,031,262
Lucent Technologies, Inc., 6.45%, 3/15/2029	1,185,000	474,000
MasTec, Inc., 7.625%, 2/1/2017	610,000	458,262
Seagate Technology HDD Holdings, 6.8%, 10/1/2016	720,000	374,400
SunGard Data Systems, Inc., 10.25%, 8/15/2015	980,000	646,800
Vangent, Inc., 9.625%, 2/15/2015	350,000	203,438
		5,175,325
Materials 10.1%		
Appleton Papers, Inc., Series B, 8.125%, 6/15/2011	235,000	162,150
ARCO Chemical Co., 9.8%, 2/1/2020**	3,270,000	359,700
Cascades, Inc., 7.25%, 2/15/2013	1,096,000	558,960
Chemtura Corp., 6.875%, 6/1/2016	705,000	359,550
Clondalkin Acquisition BV, 144A, 3.996%***, 12/15/2013	540,000	272,700
CPG International I, Inc., 10.5%, 7/1/2013	880,000	492,800
Exopack Holding Corp., 11.25%, 2/1/2014	1,415,000	827,775
Freeport-McMoRan Copper & Gold, Inc.:		
6.875%, 2/1/2014	80,000	72,000
8.25%, 4/1/2015	1,005,000	854,250
8.375%, 4/1/2017	1,965,000	1,611,300
GEO Specialty Chemicals, Inc.:		
144A, 7.5%***, 3/31/2015 (PIK)	1,242,271	894,433
144A, 9.968%***, 12/31/2009	1,996,000	1,437,120
Georgia-Pacific LLC:		
144A, 7.125%, 1/15/2017	260,000	218,400
9.5%, 12/1/2011	330,000	311,850
Hexcel Corp., 6.75%, 2/1/2015	1,560,000	1,185,600
Huntsman LLC, 11.625%, 10/15/2010	1,277,000	1,117,375
Innophos, Inc., 8.875%, 8/15/2014	170,000	119,000

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		Principal Amount ($)(a)	Value ($)
Jefferson Smurfit Corp., 8.25%, 10/1/2012		460,000	78,200
Koppers Holdings, Inc., Step-up Coupon, 0% to 11/15/2009, 9.875% to 11/15/2014		1,030,000	798,250
Metals USA Holdings Corp., 10.883%***, 7/1/2012 (PIK)		261,937	73,343
Millar Western Forest Products Ltd., 7.75%, 11/15/2013		200,000	100,000
NewMarket Corp., 7.125%, 12/15/2016		1,005,000	753,750
OI European Group BV, 144A, 6.875%, 3/31/2017	EUR	475,000	482,000
Pliant Corp., 11.85%, 6/15/2009 (PIK)		11	6
Radnor Holdings Corp., 11.0%, 3/15/2010**		265,000	331
Rhodia SA, 144A, 8.068%***, 10/15/2013	EUR	475,000	330,137
Smurfit-Stone Container Enterprises, Inc., 8.0%, 3/15/2017		550,000	104,500
Steel Dynamics, Inc., 7.375%, 11/1/2012		70,000	51,100
Terra Capital, Inc., Series B, 7.0%, 2/1/2017		815,000	599,025
The Mosaic Co., 144A, 7.375%, 12/1/2014		680,000	557,600
Witco Corp., 6.875%, 2/1/2026		360,000	100,800
Wolverine Tube, Inc., 10.5%, 4/1/2009		770,000	619,850
			15,503,855

Telecommunication Services 9.1%

		Principal Amount ($)(a)	Value ($)
BCM Ireland Preferred Equity Ltd., 144A, 11.245%***, 2/15/2017 (PIK)	EUR	539,588	63,994
Centennial Communications Corp.:			
10.0%, 1/1/2013		290,000	300,150
10.125%, 6/15/2013		625,000	631,250
Cincinnati Bell, Inc.:			
7.25%, 7/15/2013		1,030,000	906,400
8.375%, 1/15/2014(c)		450,000	346,500
Cricket Communications, Inc.:			
9.375%, 11/1/2014		730,000	657,000
144A, 10.0%, 7/15/2015		780,000	713,700
Frontier Communications Corp.:			
6.25%, 1/15/2013		430,000	365,500
9.25%, 5/15/2011		255,000	242,250
Grupo Iusacell Celular SA de CV, 10.0%, 3/31/2012		274,071	180,887
Hellas Telecommunications Luxembourg V, 144A, 8.818%***, 10/15/2012	EUR	230,000	188,630
Intelsat Corp.:			
144A, 9.25%, 8/15/2014		160,000	148,800
144A, 9.25%, 6/15/2016		1,735,000	1,578,850
Intelsat Subsidiary Holding Co., Ltd., 144A, 8.875%, 1/15/2015		960,000	873,600
iPCS, Inc., 5.318%***, 5/1/2013		200,000	142,000
MetroPCS Wireless, Inc., 9.25%, 11/1/2014		875,000	783,125
Millicom International Cellular SA, 10.0%, 12/1/2013		1,530,000	1,377,000
Qwest Corp.:			
7.25%, 9/15/2025		145,000	97,150
7.875%, 9/1/2011		995,000	915,400
8.875%, 3/15/2012		215,000	198,875
Sprint Nextel Corp., 6.0%, 12/1/2016		530,000	373,650
Stratos Global Corp., 9.875%, 2/15/2013		330,000	311,850
Telesat Canada, 144A, 11.0%, 11/1/2015		1,285,000	918,775
Virgin Media Finance PLC:			
8.75%, 4/15/2014		820,000	615,000
8.75%, 4/15/2014	EUR	700,000	685,989
Windstream Corp.:			
7.0%, 3/15/2019		430,000	331,100
8.625%, 8/1/2016		70,000	61,950
			14,009,375

Utilities 10.4%

	Principal Amount ($)(a)	Value ($)
AES Corp.:		
8.0%, 10/15/2017	415,000	340,300
144A, 8.0%, 6/1/2020	790,000	612,250
144A, 8.75%, 5/15/2013	2,519,000	2,418,240
9.5%, 6/1/2009	540,000	535,950
Allegheny Energy Supply Co., LLC, 144A, 8.25%, 4/15/2012	3,080,000	3,033,800
CMS Energy Corp., 8.5%, 4/15/2011	925,000	910,946
Edison Mission Energy, 7.0%, 5/15/2017	685,000	595,950
Energy Future Holdings Corp., 144A, 10.875%, 11/1/2017	1,115,000	791,650
Knight, Inc., 6.5%, 9/1/2012	215,000	181,675
Mirant Americas Generation LLC, 8.3%, 5/1/2011	550,000	533,500
Mirant North America LLC, 7.375%, 12/31/2013	270,000	259,200
NRG Energy, Inc.:		
7.25%, 2/1/2014	915,000	855,525
7.375%, 2/1/2016	755,000	702,150
7.375%, 1/15/2017	660,000	607,200
NV Energy, Inc.:		
6.75%, 8/15/2017	855,000	656,333
8.625%, 3/15/2014	200,000	180,315
Oncor Electric Delivery Co., 7.0%, 9/1/2022	320,000	299,011
Regency Energy Partners LP, 8.375%, 12/15/2013	515,000	352,775
Reliant Energy, Inc., 7.875%, 6/15/2017	830,000	672,300
Texas Competitive Electric Holdings Co., LLC, 144A, 10.5%, 11/1/2015	1,965,000	1,395,150
		15,934,220
Total Corporate Bonds (Cost $182,713,458)		**126,067,896**

Loan Participations and Assignments 6.4%

Senior Loans***

	Principal Amount ($)(a)	Value ($)
Advanced Medical Optics, Inc., Term Loan B, LIBOR plus 1.75%, 3.754%, 4/2/2014	244,396	159,265
Alliance Mortgage Cycle Loan, Term Loan A, LIBOR plus 7.25%, 9.254%, 6/1/2010**	700,000	0

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	Principal Amount ($)(a)	Value ($)
Alltel Communications, Inc., Term Loan B1, LIBOR plus 2.75%, 4.754%, 5/15/2015	675,000	669,657
Buffets, Inc.:		
Letter of Credit, LIBOR plus 7.25%, 9.254%, 5/1/2013	147,030	36,978
Term Loan B, LIBOR plus 7.25%, 9.254%, 11/1/2013	748,130	188,155
Term Loan DIP, LIBOR plus 7.25%, 9.254%, 1/22/2009	359,663	90,455
Charter Communications Operating LLC:		
Incremental Term Loan, LIBOR plus 5.0%, 7.004%, 3/6/2014	751,225	596,289
Term Loan, LIBOR plus 2.0%, 4.004%, 3/6/2014	704,675	521,706
Energy Future Holdings Corp.:		
Term Loan B2, LIBOR plus 3.5%, 5.504%, 10/10/2014	3,766,950	2,636,865
Term Loan B3, LIBOR plus 3.5%, 5.504%, 10/10/2014	365,250	254,154
Essor Steel Algoma, Inc., Term Loan B, LIBOR plus 2.5%, 4.504%, 6/30/2013	284,280	176,254
Ford Motor Co., Term Loan B, LIBOR plus 3.0%, 5.004%, 12/16/2013	368,122	151,031
General Nutrition Centers, Inc., Term Loan B, LIBOR plus 2.25%, 4.254%, 9/16/2013	247,487	165,817
Golden Nugget, Term Loan, 3.73%, 6/16/2014	460,000	48,300
Hawker Beechcraft, Inc.:		
Letter of Credit, LIBOR plus 2.0%, 4.004%, 3/26/2014	12,291	6,447
Term Loan B, LIBOR plus 2.0%, 4.004%, 3/26/2014	209,843	110,081
HCA, Inc., Term Loan A, LIBOR plus 1.5%, 3.504%, 11/17/2012	1,816,113	1,542,788
Hexion Specialty Chemicals:		
Term Loan C1, LIBOR plus 2.25%, 4.254%, 5/6/2013	1,100,615	466,661
Term Loan C2, LIBOR plus 2.25%, 4.254%, 5/6/2013	258,110	109,438
IASIS Healthcare LLC, Term Loan, LIBOR plus 5.25%, 7.254%, 6/15/2014 (PIK)	521,196	299,688
Longview Power LLC:		
Letter of Credit, 1.35%, 4/1/2014	30,000	18,750
Demand Draw, 3.75%, 4/1/2014	105,000	65,625
Term Loan B, 4.25%, 4/1/2014	90,000	56,250
Sabre, Inc., Term Loan B, LIBOR plus 2.0%, 4.004%, 9/30/2014	412,595	180,069
Symbion, Inc.:		
Term Loan A, LIBOR plus 3.25%, 5.254%, 8/23/2013	169,253	105,783
Term Loan B, LIBOR plus 3.25%, 5.254%, 8/23/2014	169,253	105,783
Telesat Canada:		
Delayed Draw Term Loan, LIBOR plus 3.0%, 5.004%, 10/31/2014	97,377	66,752
Term Loan B, LIBOR plus 3.0%, 5.004%, 10/31/2014	1,133,795	777,216
Tribune Co., Tranche B, LIBOR plus 3.0%, 5.004%, 5/19/2014**	829,426	239,347
Total Loan Participations and Assignments (Cost $16,197,151)		**9,845,604**

	Principal Amount ($)(a)	Value ($)
Preferred Securities 0.4%		
Financials		
Citigroup, Inc., Series E, 8.4%, 4/30/2018 (d)	575,000	379,667
Xerox Capital Trust I, 8.0%, 2/1/2027	315,000	215,110
Total Preferred Securities (Cost $831,609)		**594,777**

	Shares	Value ($)
Warrants 0.0%		
Financials 0.0%		
New ASAT (Finance) Ltd., Expiration Date 2/1/2011*	149,500	**11,730**
Industrials 0.0%		
Dayton Superior Corp., 144A, Expiration Date 6/15/2009*	95	**0**
Total Warrants (Cost $1)		**11,730**

	Units	Value ($)
Other Investments 0.3%		
Materials		
Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029 (Cost $945,336)	1,100,000	**528,000**

	Shares	Value ($)
Common Stocks 0.0%		
Consumer Discretionary 0.0%		
Vertis Holdings, Inc.*	9,993	**0**
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	24,225	20,591
GEO Specialty Chemicals, Inc. 144A*	2,206	1,875
Total Common Stocks (Cost $290,952)		**22,466**
Preferred Stocks 0.1%		
Consumer Discretionary 0.0%		
ION Media Networks, Inc.:		
144A, 12.0%*	2	0
Series AI, 144A, 12.0%*	30,000	0
Series B, 12.0%*	5,000	0
		0
Financials 0.1%		
Preferred Blocker Inc., 144A, 9.0%	449	128,209
Total Preferred Stocks (Cost $174,228)		**128,209**
Securities Lending Collateral 0.7%		
Daily Assets Fund Institutional, 1.69% (e) (f) (Cost $1,127,073)	1,127,073	**1,127,073**
Cash Equivalents 8.7%		
Cash Management QP Trust, 1.42% (e) (Cost $13,321,871)	13,321,871	**13,321,871**

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

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $215,601,679)†	98.5	**151,647,626**
Other Assets and Liabilities, Net	1.5	**2,231,587**
Net Assets	100.0	**153,879,213**

* *Non-income producing security.*

** *Non-income producing security. Issuer has defaulted on the payment of principal or 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	9.254%	6/1/2010	700,000	USD	700,000	0
Ashton Woods USA LLC	9.5%	10/1/2015	1,370,000	USD	1,292,830	274,000
Congoleum Corp.	8.625%	8/1/2008	1,200,000	USD	1,021,050	900,000
Quebecor World, Inc.	9.75%	1/15/2015	420,000	USD	420,000	33,075
Radnor Holdings Corp.	11.0%	3/15/2010	265,000	USD	234,313	331
Tribune Co.	5.004%	5/19/2014	829,426	USD	828,907	239,347
Trump Entertainment Resorts, Inc.	8.5%	6/1/2015	105,000	USD	107,100	13,913
Tropicana Entertainment LLC	9.625%	12/15/2014	1,220,000	USD	959,601	12,200
					5,563,801	**1,472,866**

*** *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, 2008.*

† *The cost for federal income tax purposes was $215,921,526. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $64,273,900. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $234,812 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $64,508,712.*

(a) *Principal amount stated in US dollars unless otherwise noted.*

(b) *Security has deferred its 6/15/2008 interest payment until 6/30/2009.*

(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, 2008 amounted to $1,052,835, which is 0.7% of net assets.*

(d) *Date shown is call date; not a maturity date for the perpetual preferred securities.*

(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.*

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.

REG S: Securities sold under Regulation S may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

At December 31, 2008, open credit default swap contracts purchased were as follows:

Effective/ Expiration Date	Notional Amount ($) (g)	Fixed Cash Flows Paid by the Portfolio	Underlying Debt Obligation/Quality Rating (h)	Value ($)	Upfront Premiums Paid/(Received) ($)	Unrealized Appreciation ($)
5/2/2008 6/20/2013	400,000[1]	7.25%	ARCO Chemical Co., 9.8%, 2/1/2020, D	289,930	—	**288,963**

At December 31, 2008, open credit default swap contracts sold were as follows:

Effective/ Expiration Date	Notional Amount ($) (g)	Fixed Cash Flows Received by the Portfolio	Underlying Debt Obligation/Quality Rating (h)	Value ($)	Upfront Premiums Paid/(Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
2/14/2008 3/20/2009	405,000[1]	3.8%	HCA, Inc., 6.375%, 1/15/2015, B–	(1,746)	—	(1,276)
2/26/2008 3/20/2009	430,000[1]	5.0%	Tenet Healthcare Corp., 7.375%, 2/1/2013, B	152	—	869
Total net unrealized depreciation						**(407)**

Counterparty:

1 *Merrill Lynch, Pierce, Fenner & Smith, Inc.*

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

(g) *The maximum potential amount of future undiscounted payments that the Portfolio could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Portfolio for the same referenced debt obligation.*

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

At December 31, 2008, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
EUR	2,656,100	USD	3,824,293	1/15/2009	134,761
EUR	62,100	USD	86,729	1/15/2009	467
Total unrealized appreciation					**135,228**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
EUR	37,600	USD	52,036	1/15/2009	**(194)**

Currency Abbreviations

EUR	Euro	USD	United States Dollar

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the tables below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities	Other Financial Instruments††
Level 1	$ 1,127,073	$ —
Level 2	148,519,776	423,590
Level 3	2,000,777	—
Total	**$ 151,647,626**	**$ 423,590**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as forward foreign currency exchange contracts and credit default swap contacts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

The following is a reconciliation of the Portfolio's Level 3 investments for which significant unobservable inputs were used in determining value at December 31, 2008:

	Investments in Securities
Balance as of January 1, 2008	$ 999,801
Total realized gain (loss)	(2,252)
Change in unrealized appreciation (depreciation)	(1,853,276)
Amortization Premium/Discount	12,609
Net purchases (sales)	975,542
Net transfers in (out) of Level 3	1,868,353
Balance as of December 31, 2008	**$ 2,000,777**

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $201,152,735) — including $1,052,835 of securities loaned	$	137,198,682
Investments in Daily Assets Fund Institutional (cost $1,127,073)*		1,127,073
Investment in Cash Management QP Trust (cost $13,321,871)		13,321,871
Total investments, at value (cost $215,601,679)		151,647,626
Cash		707,087
Foreign currency, at value (cost $3,164)		3,164
Receivable for investments sold		157,215
Receivable for Portfolio shares sold		3,325
Receivable for closed credit default swaps contracts		3,333
Interest receivable		4,019,470
Unrealized appreciation on forward foreign currency exchange contracts		135,228
Foreign taxes recoverable		3,029
Unrealized appreciation on credit default swaps contracts		289,832
Other assets		21,463
Total assets		156,990,772
Liabilities		
Payable for investments purchased		1,457,397
Payable for Portfolio shares redeemed		184,954
Payable upon return of securities loaned		1,127,073
Payable for closed credit default swap contracts		14,344
Unrealized depreciation on forward foreign currency exchange contracts		194
Unrealized depreciation on credit default swaps contracts		1,276
Accrued management fee		58,941
Other accrued expenses and payables		267,380
Total liabilities		3,111,559
Net assets, at value	**$**	**153,879,213**
Net Assets Consist of		
Undistributed net investment income		18,004,319
Net unrealized appreciation (depreciation) on: Investments		(63,954,053)
Credit default swap contracts		288,556
Foreign currency		140,514
Accumulated net realized gain (loss)		(120,784,149)
Paid-in capital		320,184,026
Net assets, at value	**$**	**153,879,213**
Class A		
Net Asset Value, offering and redemption price per share ($153,745,043 ÷ 29,000,230 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.30**
Class B		
Net Asset Value, offering and redemption price per share ($134,170 ÷ 25,274 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.31**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Interest	$	19,150,527
Dividends		1,289
Interest — Cash Management QP Trust		285,007
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		64,421
Total Income		19,501,244
Expenses:		
Management fee		1,139,273
Administration fee		131,305
Custodian fee		22,297
Distribution service fee (Class B)		8,000
Services to shareholders		476
Record keeping fees (Class B)		2,935
Professional fees		96,073
Trustees' fees and expenses		25,367
Reports to shareholders and shareholder meeting		203,799
Other		77,978
Total expenses before expense reductions		1,707,503
Expense reductions		(14,024)
Total expenses after expense reductions		1,693,479
Net investment income (loss)		**17,807,765**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from: Investments		(22,491,277)
Credit default swap contracts		(251,669)
Foreign currency		275,339
Payments by affiliates (see Note I)		6
		(22,467,601)
Change in net unrealized appreciation (depreciation) on: Investments		(46,404,643)
Credit default swap contracts		322,027
Unfunded loan commitments		495
Foreign currency		45,110
		(46,037,011)
Net gain (loss)		**(68,504,612)**
Net increase (decrease) in net assets resulting from operations	**$**	**(50,696,847)**

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, 2008	2007
Operations:		
Net investment income	$ 17,807,765	$ 25,179,014
Net realized gain (loss)	(22,467,601)	(2,365,006)
Change in net unrealized appreciation (depreciation)	(46,037,011)	(17,331,415)
Net increase (decrease) in net assets resulting from operations	(50,696,847)	5,482,593
Distributions to shareholders from:		
Net investment income:		
Class A	(23.705,161)	(24,698,902)
Class B	(925,654)	(3,765,571)
Total distributions	(24,630,815)	(28,464,473)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	34,048,144	39,622,315
Reinvestment of distributions	23,705,161	24,698,902
Cost of shares redeemed	(77,354,304)	(117,470,499)
Net increase (decrease) in net assets from Class A share transactions	(19,600,999)	(53,149,282)
Class B		
Proceeds from shares sold	76,767	3,273,156
Reinvestment of distributions	925,654	3,765,571
Cost of shares redeemed	(9,671,811)	(48,245,391)
Net increase (decrease) in net assets from Class B share transactions	(8,669,390)	(41,206,664)
Increase (decrease) in net assets	(103,598,051)	(117,337,826)
Net assets at beginning of period	257,477,264	374,815,090
Net assets at end of period (including undistributed net investment income of $18,004,319 and $24,527,293, respectively)	**$ 153,879,213**	**$ 257,477,264**

Other Information		
Class A		
Shares outstanding at beginning of period	31,702,335	38,357,993
Shares sold	5,474,310	4,945,319
Shares issued to shareholders in reinvestment of distributions	3,511,876	3,110,693
Shares redeemed	(11,688,291)	(14,711,670)
Net increase (decrease) in Class A shares	(2,702,105)	(6,655,658)
Shares outstanding at end of period	**29,000,230**	**31,702,335**
Class B		
Shares outstanding at beginning of period	1,262,331	6,354,214
Shares sold	10,281	397,938
Shares issued to shareholders in reinvestment of distributions	136,728	473,062
Shares redeemed	(1,384,066)	(5,962,883)
Net increase (decrease) in Class B shares	(1,237,057)	(5,091,883)
Shares outstanding at end of period	**25,274**	**1,262,331**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$ 7.81**	**$ 8.38**	**$ 8.23**	**$ 8.78**	**$ 8.43**
Income (loss) from investment operations:					
Net investment income[a]	.57	.63	.62	.68	.67
Net realized and unrealized gain (loss)	(2.29)	(.54)	.19	(.38)	.31
Total from investment operations	(1.72)	.09	.81	.30	.98
Less distributions from:					
Net investment income	(.79)	(.66)	(.66)	(.85)	(.63)
Net asset value, end of period	**$ 5.30**	**$ 7.81**	**$ 8.38**	**$ 8.23**	**$ 8.78**
Total Return (%)	(23.94)[b]	.96	10.47	3.89	12.42
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	154	248	322	344	393
Ratio of expenses before expense reductions (%)	.80	.69	.71	.70	.66
Ratio of expenses after expense reductions (%)	.79	.69	.71	.70	.66
Ratio of net investment income (%)	8.42	7.84	7.73	8.27	8.11
Portfolio turnover rate (%)	38	61	93	100	162

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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$ 7.81**	**$ 8.38**	**$ 8.22**	**$ 8.77**	**$ 8.41**
Income (loss) from investment operations:					
Net investment income[a]	.53	.60	.59	.65	.64
Net realized and unrealized gain (loss)	(2.27)	(.54)	.20	(.39)	.32
Total from investment operations	(1.74)	.06	.79	.26	.96
Less distributions from:					
Net investment income	(.76)	(.63)	(.63)	(.81)	(.60)
Net asset value, end of period	**$ 5.31**	**$ 7.81**	**$ 8.38**	**$ 8.22**	**$ 8.77**
Total Return (%)	(24.13)[b]	.54	10.11	3.41	12.08
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.1	10	53	56	57
Ratio of expenses before expense reductions (%)	1.25	1.08	1.10	1.10	1.06
Ratio of expenses after expense reductions (%)	1.23	1.08	1.10	1.10	1.06
Ratio of net investment income (%)	7.98	7.45	7.34	7.87	7.71
Portfolio turnover rate (%)	38	61	93	100	162

a *Based on average shares outstanding during the period.*

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

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.

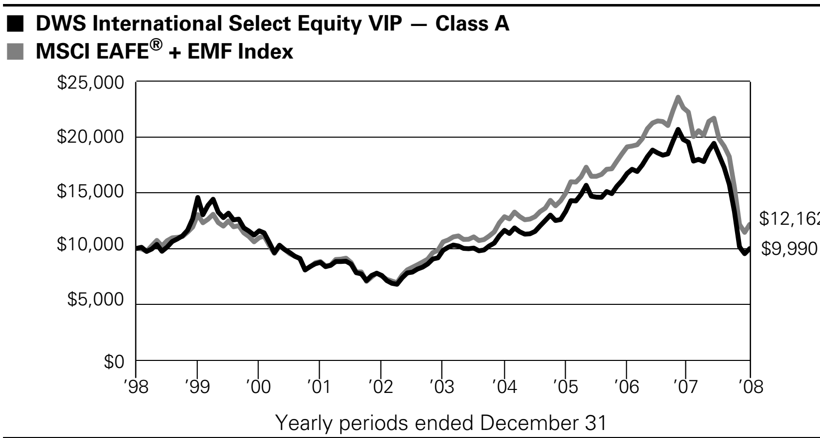
The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.93% and 1.18% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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 risks, 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 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	$5,119	$7,502	$10,157	$9,990
	Average annual total return	–48.81%	–9.14%	.31%	–.01%
MSCI EAFE + EMF Index	Growth of $10,000	$5,476	$8,136	$11,485	$12,162
	Average annual total return	–45.24%	–6.64%	2.81%	1.98%

DWS International Select Equity VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$5,093	$7,402	$9,943	$11,378
	Average annual total return	–49.07%	–9.54%	–.12%	2.00%
MSCI EAFE + EMF Index	Growth of $10,000	$5,476	$8,136	$11,485	$13,910
	Average annual total return	–45.24%	–6.64%	2.81%	5.21%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 544.70	$ 543.90
Expenses Paid per $1,000*	$ 4.04	$ 5.05
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,019.91	$1,018.60
Expenses Paid per $1,000*	$ 5.28	$ 6.60

* *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 366.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS International Select Equity VIP	1.04%	1.30%

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

The MSCI EAFE® + EMF Index (the Portfolio's benchmark) returned –45.24% during 2008, a year that was characterized by the rapid expansion of the global financial crisis, slowing economic growth and sharply elevated investor risk aversion. Class A shares of the Portfolio returned –48.81% (unadjusted for contract charges), underperforming the index. The primary reason for underperformance was that the Portfolio held a substantial exposure to higher-risk stocks coming into the autumn downturn. Upon taking over for the previous management team in mid-August, we sought to reduce risk by decreasing the Portfolio's weightings in higher-risk areas such as mid- and small-caps, emerging-market stocks, and cyclicals. Unfortunately, we did not make these changes quickly enough to prevent underperformance.

For the full year, the Portfolio's return was helped by an underweight in financials and favorable stock selection in the information technology and health care sectors, but this was offset by weaker stock selection in the consumer staples and consumer discretionary sectors.[1] The leading contributors to performance included iShares MSCI Japan Index Fund, Telefonica SA and BASF SE. The most significant detractors were the Russian gas company Gazprom and the brewer Carlsberg AS.

Believing that recovery in the global economy will likely occur slowly, we are maintaining a defensive positioning in the Portfolio. We are favoring sectors with high cash flows, stable earnings, and a low sensitivity to economic trends, such as health care and telecommunications. At the same time, the Portfolio is underweight in areas that are more dependent on economic growth, such as industrials, financials and the consumer discretionary sector. Although defensive for now, we are also keeping a close eye on stock-specific opportunities given that dividend yields are attractive and price-to-book values are at their lowest level of the past 10–15 years.

Joseph Axtell, CFA
Lead Portfolio Manager, Deutsche Investment Management Americas Inc.

Michael Sieghart, CFA
Consultant, Deutsche Investment Management Americas Inc.

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.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS International Select Equity VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	95%	94%
Exchange Traded Fund	5%	—
Cash Equivalents	—	3%
Preferred Stocks	—	3%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/08**	**12/31/07**
Health Care	21%	5%
Financials	19%	23%
Telecommunications Services	14%	6%
Energy	11%	5%
Consumer Staples	10%	7%
Industrials	8%	18%
Materials	7%	9%
Information Technology	6%	5%
Utilities	4%	6%
Consumer Discretionary	—	16%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/08**	**12/31/07**
Continental Europe	59%	52%
Japan	24%	15%
United Kingdom	7%	12%
Asia (excluding Japan)	6%	9%
Latin America	2%	2%
Russia	1%	4%
Canada	1%	—
Middle East	—	2%
Australia	—	2%
Africa	—	2%
	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. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 94.5%		
Austria 2.0%		
Intercell AG* (Cost $1,671,371)	59,154	**1,813,698**
Brazil 1.1%		
Petroleo Brasileiro SA (ADR) (Cost $2,014,976)	38,800	**950,212**
Canada 0.9%		
Potash Corp. of Saskatchewan, Inc. (Cost $1,412,403)	11,514	**835,132**
China 2.5%		
China Life Insurance Co., Ltd. "H" (Cost $2,758,208)	720,000	**2,218,739**
Denmark 5.1%		
Carlsberg AS "B" (a)	49,700	1,631,700
Novo Nordisk AS "B"	59,200	3,012,651
(Cost $9,081,105)		**4,644,351**
Finland 2.9%		
Fortum Oyj	73,400	1,576,587
Nokia Oyj	69,500	1,077,454
(Cost $4,785,260)		**2,654,041**
France 7.6%		
Alstom SA	15,592	920,752
Axa	53,845	1,200,458
BNP Paribas	22,803	962,888
Societe Generale	31,059	1,573,061
Total SA	41,180	2,245,038
(Cost $8,605,296)		**6,902,197**
Germany 17.5%		
Allianz SE (Registered)	13,941	1,495,285
BASF SE	41,600	1,643,804
Bayer AG (a)	61,711	3,625,197
Deutsche Boerse AG	24,800	1,806,241
Deutsche Telekom AG (Registered) (a)	141,100	2,143,812
E.ON AG	38,414	1,553,353
Linde AG	20,100	1,700,932
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	12,300	1,932,908
(Cost $14,041,948)		**15,901,532**
Hong Kong 2.1%		
China Mobile Ltd. (Cost $1,972,181)	186,000	**1,885,818**
Italy 1.5%		
Intesa Sanpaolo (Cost $2,309,847)	373,100	**1,322,643**
Japan 18.6%		
Astellas Pharma, Inc.	27,500	1,119,013
Canon, Inc.	75,400	2,366,922
East Japan Railway Co.	23,200	1,806,470
Japan Tobacco, Inc.	638	2,112,675
Mitsubishi Corp.	121,000	1,698,651
Mitsubishi UFJ Financial Group, Inc.	235,000	1,458,157
Nintendo Co., Ltd.	4,500	1,728,877
Nippon Telegraph & Telephone Corp.	25,900	1,385,971
Seven & I Holdings Co., Ltd.	41,000	1,404,649
Terumo Corp.	37,200	1,742,114
(Cost $19,296,964)		**16,823,499**
Luxembourg 0.9%		
ArcelorMittal (Cost $2,080,196)	35,343	**851,880**
Mexico 0.9%		
America Movil SAB de CV "L" (ADR) (Cost $1,493,798)	26,600	**824,334**
Norway 2.8%		
DnB NOR ASA	121,500	485,345
StatoilHydro ASA	125,400	2,065,372
(Cost $4,959,643)		**2,550,717**
Russia 1.2%		
Gazprom (ADR)* (Cost $2,976,319)	76,300	**1,092,177**
Singapore 1.5%		
United Overseas Bank Ltd. (Cost $2,089,882)	146,000	**1,317,951**
Spain 3.9%		
Telefonica SA (Cost $2,826,342)	157,364	**3,527,387**
Switzerland 14.1%		
ABB Ltd. (Registered)*	100,988	1,522,315
Lonza Group AG (Registered)	20,203	1,867,666
Nestle SA (Registered)	83,883	3,306,045
Novartis AG (Registered)	44,409	2,225,090
Roche Holding AG (Genusschein)	18,265	2,811,599
Xstrata PLC	116,412	1,085,266
(Cost $14,213,473)		**12,817,981**
United Kingdom 7.4%		
AMEC PLC	127,649	911,098
Babcock International Group PLC	80,802	555,838
BG Group PLC	151,093	2,097,740
HSBC Holdings PLC	91,303	873,882
Vodafone Group PLC	1,125,872	2,266,508
(Cost $9,179,092)		**6,705,066**
Total Common Stocks (Cost $107,768,304)		**85,639,355**
Exchange Traded Fund 4.9%		
Japan		
iShares MSCI Japan Index Fund (a) (Cost $5,387,329)	463,726	**4,451,770**
Securities Lending Collateral 9.6%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $8,690,918)	8,690,918	**8,690,918**
Cash Equivalents 0.4%		
Cash Management QP Trust, 1.42% (b) (Cost $369,189)	369,189	**369,189**

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

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $122,215,740)†	109.4	**99,151,232**
Other Assets and Liabilities, Net	(9.4)	**(8,502,160)**
Net Assets	100.0	**90,649,072**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $123,010,114. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $23,858,882. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,936,104 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $30,794,986.*

(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, 2008 amounted to $8,315,612, which is 9.2% 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

MSCI: Morgan Stanley Capital International

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities
Level 1	$ 16,844,543
Level 2	82,306,689
Level 3	—
Total	**$ 99,151,232**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $113,155,633) — including $8,315,612 of securities loaned	$	90,091,125
Investment in Daily Assets Fund Institutional (cost $8,690,918)*		8,690,918
Investment in Cash Management QP Trust (cost $369,189)		369,189
Total investments, at value (cost $122,215,740)		99,151,232
Foreign currency, at value (cost $209,574)		209,614
Dividends receivable		177,391
Interest receivable		10,536
Foreign taxes recoverable		145,889
Other assets		3,602
Total assets		99,698,264
Liabilities		
Payable for Portfolio shares redeemed		84,094
Payable upon return of securities loaned		8,690,918
Accrued management fee		59,652
Other accrued expenses and payables		214,528
Total liabilities		9,049,192
Net assets, at value	**$**	**90,649,072**
Net Assets Consist of		
Undistributed net investment income		5,131,928
Net unrealized appreciation (depreciation) on:		
Investments		(23,064,508)
Foreign currency		13,407
Accumulated net realized gain (loss)		(48,835,637)
Paid-in capital		157,403,882
Net assets, at value	**$**	**90,649,072**
Class A		
Net Asset Value, offering and redemption price per share ($90,552,029 ÷ 14,554,587 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.22**
Class B		
Net Asset Value, offering and redemption price per share ($97,043 ÷ 15,672 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.19**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $485,492)	$	6,904,106
Interest		23,025
Interest — Cash Management QP Trust		111,832
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		254,593
Total Income		7,293,556
Expenses:		
Management fee		1,244,991
Administration fee		105,669
Custodian fee		275,682
Distribution service fee (Class B)		11,230
Services to shareholders		219
Record keeping fees (Class B)		6,257
Professional fees		82,959
Trustees' fees and expenses		18,554
Reports to shareholders and shareholder meeting		78,226
Other		29,970
Total expenses before expense reductions		1,853,757
Expense reductions		(11,048)
Total expenses after expense reductions		1,842,709
Net investment income (loss)		**5,450,847**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(48,344,004)
Foreign currency		(316,140)
Payments by affiliates (see Note I)		354,782
		(48,305,362)
Change in net unrealized appreciation (depreciation) on:		
Investments (including deferred foreign tax credit of $15,499)		(62,634,390)
Foreign currency		(2,735)
		(62,637,125)
Net gain (loss) on investment transactions		**(110,942,487)**
Net increase (decrease) in net assets resulting from operations	**$**	**(105,491,640)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 5,450,847	$ 3,970,300
Net realized gain (loss)	(48,305,362)	62,491,196
Change in net unrealized appreciation (depreciation)	(62,637,125)	(23,087,118)
Net increase (decrease) in net assets resulting from operations	(105,491,640)	43,374,378
Distributions to shareholders from:		
Net investment income:		
Class A	(1,777,801)	(6,153,181)
Class B	(65,124)	(1,706,211)
Net realized gains:		
Class A	(55,032,003)	(21,172,091)
Class B	(3,550,840)	(6,853,490)
Total distributions	(60,425,768)	(35,884,973)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	11,757,062	26,016,717
Reinvestment of distributions	56,809,804	27,325,272
Cost of shares redeemed	(52,019,794)	(48,603,167)
Net increase (decrease) in net assets from Class A share transactions	16,547,072	4,738,822
Class B		
Proceeds from shares sold	830,161	3,741,916
Reinvestment of distributions	3,615,964	8,559,701
Cost of shares redeemed	(15,396,520)	(69,011,239)
Net increase (decrease) in net assets from Class B share transactions	(10,950,395)	(56,709,622)
Increase (decrease) in net assets	(160,320,731)	(44,481,395)
Net assets at beginning of period	250,969,803	295,451,198
Net assets at end of period (including undistributed net investment income of $5,131,928 and $1,838,472, respectively)	**$ 90,649,072**	**$ 250,969,803**

Other Information

Class A		
Shares outstanding at beginning of period	14,064,172	13,653,834
Shares sold	1,040,380	1,594,102
Shares issued to shareholders in reinvestment of distributions	5,131,870	1,820,471
Shares redeemed	(5,681,835)	(3,004,235)
Net increase (decrease) in Class A shares	490,415	410,338
Shares outstanding at end of period	**14,554,587**	**14,064,172**
Class B		
Shares outstanding at beginning of period	912,661	4,475,081
Shares sold	60,348	229,248
Shares issued to shareholders in reinvestment of distributions	326,645	570,267
Shares redeemed	(1,283,982)	(4,361,935)
Net increase (decrease) in Class B shares	(896,989)	(3,562,420)
Shares outstanding at end of period	**15,672**	**912,661**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$16.76**	**$16.31**	**$13.25**	**$11.91**	**$10.18**
Income (loss) from investment operations:					
Net investment income[a]	.33[d]	.25	.24[b]	.20	.17
Net realized and unrealized gain (loss)	(6.67)	2.24	3.11	1.48	1.67
Total from investment operations	(6.34)	2.49	3.35	1.68	1.84
Less distributions from:					
Net investment income	(.13)	(.46)	(.29)	(.34)	(.11)
Net realized gains	(4.07)	(1.58)	—	—	—
Total distributions	(4.20)	(2.04)	(.29)	(.34)	(.11)
Net asset value, end of period	**$ 6.22**	**$16.76**	**$16.31**	**$13.25**	**$11.91**
Total Return (%)	(48.81)[c,e]	16.71	25.56	14.51	18.25
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	91	236	223	196	184
Ratio of expenses before expense reductions (%)	1.02	.93	.88	.87	.89
Ratio of expenses after expense reductions (%)	1.01	.93	.88	.87	.89
Ratio of net investment income (%)	3.04[d]	1.53	1.65[b]	1.59	1.58
Portfolio turnover rate (%)	132	117	122	93	88

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.*

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

d *Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.16 per share and 1.49% of average daily net assets, respectively.*

e *Includes a reimbursement from the Advisor to reimburse the effect of losses incurred as the result of certain operation errors during the period. Excluding this reimbursement, total return would have been 0.14% lower.*

Class B

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$16.70**	**$16.26**	**$13.21**	**$11.88**	**$10.15**
Income (loss) from investment operations:					
Net investment income[a]	.24[d]	.19	.19[b]	.15	.13
Net realized and unrealized gain (loss)	(6.61)	2.22	3.09	1.47	1.67
Total from investment operations	(6.37)	2.41	3.28	1.62	1.80
Less distributions from:					
Net investment income	(.07)	(.39)	(.23)	(.29)	(.07)
Net realized gains	(4.07)	(1.58)	—	—	—
Total distributions	(4.14)	(1.97)	(.23)	(.29)	(.07)
Net asset value, end of period	**$ 6.19**	**$16.70**	**$16.26**	**$13.21**	**$11.88**
Total Return (%)	(49.07)[c,e]	16.20	25.06	14.00	17.84
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.1	15	73	62	47
Ratio of expenses before expense reductions (%)	1.39	1.30	1.26	1.26	1.28
Ratio of expenses after expense reductions (%)	1.38	1.30	1.26	1.26	1.28
Ratio of net investment income (%)	2.67[d]	1.16	1.27[b]	1.20	1.19
Portfolio turnover rate (%)	132	117	122	93	88

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.*

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

d *Net investment income per share and ratio of net investment income include non-recurring dividend income amounting to $0.16 per share and 1.49% of average daily net assets, respectively.*

e *Includes a reimbursement from the Advisor to reimburse the effect of losses incurred as the result of certain operation errors during the period. Excluding this reimbursement, total return would have been 0.14% lower.*

Performance Summary

December 31, 2008

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.

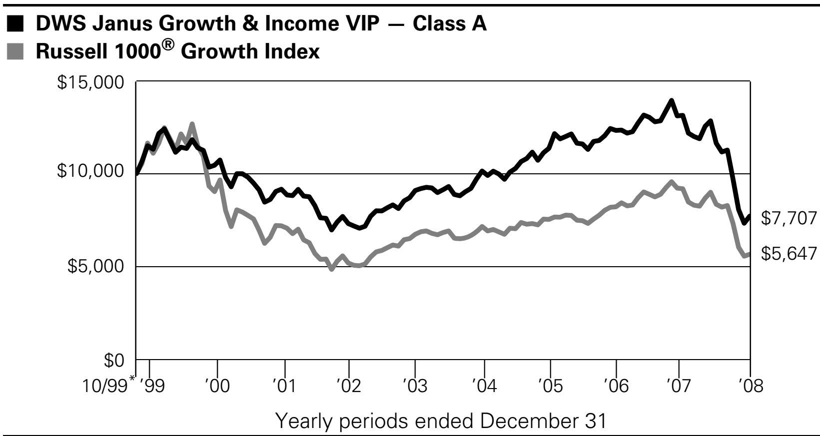
The total annual Portfolio operating expense ratio, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 is 0.90% for Class A shares. Please see the Information About Your Portfolio's Expenses, the Financial Highlights and Notes to the Financial Statements (Note C, Related Parties) sections of this report for gross and net expense related disclosure for the period ended December 31, 2008.

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.

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 Janus Growth & Income VIP from 10/29/1999 to 12/31/2008



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	$5,871	$6,786	$8,483	$7,707
	Average annual total return	–41.29%	–12.13%	–3.24%	–2.80%
Russell 1000 Growth Index	Growth of $10,000	$6,156	$7,508	$8,401	$5,647
	Average annual total return	–38.44%	–9.11%	–3.42%	–6.04%

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 if the Portfolio's expenses were not maintained.*

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 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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**
Beginning Account Value 7/1/08	$1,000.00
Ending Account Value 12/31/08	$ 662.40
Expenses Paid per $1,000*	$ 3.55
Hypothetical 5% Portfolio Return	**Class A**
Beginning Account Value 7/1/08	$1,000.00
Ending Account Value 12/31/08	$1,020.86
Expenses Paid per $1,000*	$ 4.32

* *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 six-month period, then divided by 366.*

Annualized Expense Ratios	**Class A**
DWS Variable Series II — DWS Janus Growth & Income VIP	.85%

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

Continuing turmoil from the credit crisis and concerns over a prolonged recession characterized US equity markets during the 12-month period ending December 31, 2008. For that same period, the Portfolio's Class A shares (unadjusted for contract charges) returned –41.29%, while its benchmark, the Russell 1000® Growth Index, returned –38.44%.

Holdings within the consumer discretionary and information technology sectors were the main laggards during the period. In terms of contributors, select materials names coupled with a significant underweight in financials aided relative performance.[1]

Google, Inc. has been impacted by investor worries that the current Internet advertising climate favors advertisers who can pay less for clicks. Given the difficult economic climate, we chose to exit the position during the fourth quarter. Hess Corp., an exploration and production company and a key contributor to the Portfolio in 2008, was impacted by the steep decline in oil prices during the second half of the year.

Yahoo! Inc. was one of the top contributors to performance for the year. We sold the Portfolio's position in the Internet software company early in the period after Microsoft Corp. made an offer to buy the company. Genentech, Inc., a California-based biotechnology leader, moved ahead during the second half of the year after receiving a take-out bid from Swiss-based Roche, which already owned a majority share of the company.

The magnitude of the economic and financial downturn in 2008 caught many of us by surprise. While we recognize the potential for a long series of negative economic data points hitting financial markets, we believe there is ample reason to be optimistic, recognizing that valuations are at historically low levels by any measure and that the market typically discounts an eventual economic recovery prior to it showing up in the data.

Marc Pinto, CFA

Portfolio Manager, Janus Capital Management LLC, Subadvisor to the Portfolio

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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Janus Growth & Income VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	91%	95%
Government & Agency Obligations	7%	—
Cash Equivalents	1%	1%
Corporate Bonds	1%	—
Preferred Stocks	—	1%
Participatory Notes	—	2%
Equity Linked Structured Notes	—	1%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks and Corporate Bonds)	**12/31/08**	**12/31/07**
Information Technology	24%	25%
Consumer Staples	22%	14%
Health Care	17%	11%
Energy	13%	16%
Consumer Discretionary	10%	14%
Industrials	5%	8%
Financials	5%	10%
Materials	4%	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. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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, 2008

DWS Janus Growth & Income VIP

	Shares	Value ($)
Common Stocks 90.9%		
Consumer Discretionary 8.4%		
Hotels Restaurants & Leisure 3.1%		
Crown Ltd. (a)	37,830	158,361
MGM MIRAGE* (a)	57,340	788,998
Starwood Hotels & Resorts Worldwide, Inc. (a)	27,005	483,390
Wynn Resorts Ltd.* (a)	18,875	797,658
		2,228,407
Internet & Catalog Retail 0.0%		
Liberty Media Corp. — Interactive "A"* (a)	11,640	**36,317**
Media 1.1%		
The DIRECTV Group, Inc.* (a)	33,515	**767,829**
Specialty Retail 2.8%		
Esprit Holdings Ltd.	264,025	1,504,951
Tiffany & Co. (a)	22,250	525,767
		2,030,718
Textiles, Apparel & Luxury Goods 1.4%		
NIKE, Inc. "B"	20,425	**1,041,675**
Consumer Staples 20.2%		
Beverages 5.0%		
Anheuser-Busch InBev NV (a)	155,601	3,607,505
Anheuser-Busch InBev NV (VVPR Strip)*	88,376	492
		3,607,997
Food & Staples Retailing 4.0%		
CVS Caremark Corp.	101,200	**2,908,488**
Food Products 6.2%		
Nestle SA (ADR) (Registered)	44,982	1,785,785
Nestle SA (Registered)	68,430	2,697,003
		4,482,788
Household Products 1.7%		
Reckitt Benckiser Group PLC	33,918	**1,263,596**
Tobacco 3.3%		
Altria Group, Inc.	41,620	626,797
Philip Morris International, Inc.	41,620	1,810,886
		2,437,683
Energy 11.6%		
Oil, Gas & Consumable Fuels		
ConocoPhillips	45,000	2,331,000
EnCana Corp.	45,668	2,122,648
EOG Resources, Inc.	17,195	1,144,843
Hess Corp.	53,259	2,856,813
		8,455,304
Financials 4.2%		
Capital Markets 3.7%		
Credit Suisse Group AG (ADR)	27,295	771,356
Morgan Stanley	70,720	1,134,349
The Goldman Sachs Group, Inc.	9,315	786,093
		2,691,798
Real Estate Management & Development 0.5%		
Hang Lung Properties Ltd.	140,725	**308,694**
Health Care 15.7%		
Biotechnology 2.3%		
Celgene Corp.*	11,295	624,388
Genentech, Inc.*	12,210	1,012,331
		1,636,719
Health Care Equipment & Supplies 3.4%		
Alcon, Inc.	13,505	1,204,511
Baxter International, Inc.	13,245	709,799
Covidien Ltd.	16,345	592,343
		2,506,653
Health Care Providers & Services 2.7%		
UnitedHealth Group, Inc.	75,070	**1,996,862**
Pharmaceuticals 7.3%		
Allergan, Inc.	24,635	993,283
Bristol-Myers Squibb Co.	27,660	643,095
Merck & Co., Inc.	45,490	1,382,896
Roche Holding AG (Genusschein)	8,737	1,344,919
Wyeth	24,865	932,686
		5,296,879
Industrials 5.1%		
Aerospace & Defense 3.3%		
BAE Systems PLC (ADR)	17,805	397,230
Boeing Co.	28,590	1,219,935
Empresa Brasiliera de Aeronautica SA (ADR)	50,013	810,711
		2,427,876
Electrical Equipment 0.7%		
JA Solar Holdings Co., Ltd. (ADR)* (a)	52,345	228,748
Suntech Power Holdings Co., Ltd. (ADR)* (a)	24,612	287,960
		516,708
Machinery 1.1%		
Danaher Corp. (a)	13,820	**782,350**
Information Technology 21.9%		
Communications Equipment 6.9%		
Cisco Systems, Inc.*	35,285	575,146
Corning, Inc. (a)	149,242	1,422,276
Nokia Oyj (ADR) (a)	43,038	671,393
QUALCOMM, Inc.	36,645	1,312,990
Research In Motion Ltd.*	26,135	1,060,558
		5,042,363
Computers & Peripherals 4.0%		
Apple, Inc.*	23,694	2,022,283
EMC Corp.*	80,680	844,720
		2,867,003
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	11,845	**284,043**
Internet Software & Services 0.8%		
eBay, Inc.*	39,690	**554,072**

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

	Shares	Value ($)
IT Services 1.9%		
Visa, Inc. "A" (a)	9,960	522,402
Western Union Co.	61,260	878,469
		1,400,871
Software 7.9%		
Citrix Systems, Inc.*	11,845	279,187
Microsoft Corp.	53,575	1,041,498
Nintendo Co., Ltd. (ADR) (a)	21,100	1,007,525
Oracle Corp.*	192,650	3,415,684
		5,743,894

Materials 3.8%

	Shares	Value ($)
Chemicals		
Monsanto Co.	5,455	383,759
Praxair, Inc.	8,530	506,341
Syngenta AG (ADR)	48,250	1,888,505
		2,778,605
Total Common Stocks (Cost $81,633,867)		**66,096,192**

Preferred Stock 0.4%

Financials

	Shares	Value ($)
Citigroup, Inc., Series AA, 8.125% (Cost $413,997)	18,325	**292,284**

Corporate Bonds 0.7%

	Principal Amount ($)	Value ($)
Consumer Discretionary 0.4%		
MGM MIRAGE, 8.5%, 9/15/2010	346,000	**290,640**
Energy 0.3%		
Suntech Power Holdings Co., Ltd., 144A, 3.0%, 3/15/2013	623,000	**249,979**
Total Corporate Bonds (Cost $850,506)		**540,619**

Government & Agency Obligations 7.3%

US Treasury Obligations

	Principal Amount ($)	Value ($)
US Treasury Notes:		
1.5%, 10/31/2010 (a)	844,000	856,594
2.125%, 1/31/2010 (a)	2,326,000	2,368,612
2.75%, 7/31/2010	646,000	669,216
3.375%, 7/31/2013 (a)	646,000	705,604
4.875%, 7/31/2011 (a)	646,000	712,972
Total Government & Agency Obligations (Cost $5,164,642)		**5,312,998**

Securities Lending Collateral 14.8%

	Shares	Value ($)
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $10,735,723)	10,735,723	**10,735,723**

Cash Equivalents 0.9%

	Shares	Value ($)
Cash Management QP Trust, 1.42% (b) (Cost $646,439)	646,439	**646,439**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $99,445,174)†	115.0	**83,624,255**
Other Assets and Liabilities, Net	(15.0)	**(10,876,343)**
Net Assets	100.0	**72,747,912**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $99,875,076. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $16,250,821. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $5,338,897 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $21,589,718.*

(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, 2008 amounted to $10,631,296, which is 14.6% 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

At December 31, 2008, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
GBP	500,000	USD	786,000	1/23/2009	**68,204**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
CHF	925,000	USD	787,858	1/23/2009	(81,443)
EUR	480,000	USD	610,668	1/23/2009	(55,841)
CHF	1,355,000	USD	1,189,118	2/6/2009	(84,474)
EUR	770,000	USD	1,060,752	2/6/2009	(7,918)
Total unrealized depreciation					**(229,676)**

Currency Abbreviations

CHF	Swiss Franc	GBP	British Pound
EUR	Euro	USD	United States Dollar

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

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**	**Other Financial Instruments††**
Level 1	$ 66,238,678	$ —
Level 2	17,385,577	(161,472)
Level 3	—	—
Total	**$ 83,624,255**	**$ (161,472)**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as forward foreign currency exchange contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investments in securities, at value (cost $88,063,012) — including $10,631,788 of securities loaned	$ 72,242,093
Investments in Daily Assets Fund Institutional, (cost $10,735,723)*	10,735,723
Investment in Cash Management QP Trust (cost $646,439)	646,439
Total investments, at value (cost $99,445,174)	83,624,255
Dividends receivable	106,629
Interest receivable	95,582
Foreign taxes recoverable	15,115
Net receivable on closed forward foreign currency exchange contracts	2,696
Unrealized appreciation on forward foreign currency exchange contracts	68,204
Other assets	3,827
Total assets	83,916,308
Liabilities	
Foreign cash overdraft	42,545
Payable upon return of securities loaned	10,735,723
Payable for Portfolio shares redeemed	33,280
Unrealized depreciation on forward foreign currency exchange contracts	229,676
Accrued management fee	32,488
Other accrued expenses and payables	94,684
Total liabilities	11,168,396
Net assets, at value	**$ 72,747,912**
Net Assets Consist of	
Undistributed net investment income	1,451,246
Net unrealized appreciation (depreciation) on:	
Investments	(15,820,919)
Foreign currency	(166,440)
Accumulated net realized gain (loss)	(16,266,163)
Paid-in capital	103,550,188
Net assets, at value	**$ 72,747,912**
Class A	
Net Asset Value, offering and redemption price per share ($72,747,912 ÷ 10,707,778 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 6.79**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $92,750)	$ 2,151,856
Interest — Cash Management QP Trust	54,714
Interest	123,457
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	241,363
Total Income	2,571,390
Expenses:	
Management fee	897,800
Administration fee	76,972
Services to shareholders	50
Custodian and accounting fees	58,454
Distribution service fee (Class B)	3,511
Record keeping fees (Class B)	1,388
Professional fees	69,314
Trustees' fees and expenses	19,156
Reports to shareholders and shareholder meeting	26,734
Other	17,765
Total expenses before expense reductions	1,171,144
Expense reductions	(7,973)
Total expenses after expense reductions	1,163,171
Net investment income (loss)	**1,408,219**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(15,768,982)
Foreign currency	72,581
	(15,696,401)
Change in net unrealized appreciation (depreciation) on:	
Investments	(48,908,666)
Foreign currency	(170,089)
	(49,078,755)
Net gain (loss)	**(64,775,156)**
Net increase (decrease) in net assets resulting from operations	**$ (63,366,937)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 1,408,219	$ 1,783,281
Net realized gain (loss)	(15,696,401)	26,158,518
Change in net unrealized appreciation (depreciation)	(49,078,755)	(14,652,159)
Net increase (decrease) in net assets resulting from operations	(63,366,937)	13,289,640
Distributions to shareholders from:		
Net investment income:		
Class A	(1,498,719)	(1,085,636)
Class B	(26,339)	(60,241)
Net realized gains:		
Class A	(10,758,388)	—
Class B	(307,896)	—
Total distributions	(12,591,342)	(1,145,877)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	3,988,301	3,234,514
Reinvestment of distributions	12,257,107	1,085,636
Cost of shares redeemed	(36,686,072)	(39,897,035)
Net increase (decrease) in net assets from Class A share transactions	(20,440,664)	(35,576,885)
Class B*		
Proceeds from shares sold	34,143	923,888
Reinvestment of distributions	334,235	60,241
Cost of shares redeemed	(4,769,414)	(29,091,879)
Net increase (decrease) in net assets from Class B share transactions	(4,401,036)	(28,107,750)
Increase (decrease) in net assets	(100,799,979)	(51,540,872)
Net assets at beginning of period	173,547,891	225,088,763
Net assets at end of period (including undistributed net investment income of $1,451,246 and $1,499,729, respectively)	**$ 72,747,912**	**$ 173,547,891**

Other Information		
Class A		
Shares outstanding at beginning of period	13,362,156	16,236,105
Shares sold	377,805	261,428
Shares issued to shareholders in reinvestment of distributions	1,171,808	92,159
Shares redeemed	(4,203,991)	(3,227,536)
Net increase (decrease) in Class A shares	(2,654,378)	(2,873,949)
Shares outstanding at end of period	**10,707,778**	**13,362,156**
Class B*		
Shares outstanding at beginning of period	392,971	2,676,871
Shares sold	3,098	77,171
Shares issued to shareholders in reinvestment of distributions	32,107	5,135
Shares redeemed	(428,176)	(2,366,206)
Net increase (decrease) in Class B shares	(392,971)	(2,283,900)
Shares outstanding at end of period	**—**	**392,971**

* *On July 31, 2008, Class B shares were liquidated.*

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$12.62**	**$11.91**	**$11.05**	**$ 9.88**	**$ 8.86**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.11	.12	.07	.05	.03
Net realized and unrealized gain (loss)	(4.98)	.66	.86	1.14	.99
Total from investment operations	(4.87)	.78	.93	1.19	1.02
Less distributions from:					
Net investment income	(.12)	(.07)	(.07)	(.02)	—
Net realized and unrealized gain (loss) on investment transactions	(.84)	—	—	—	—
Total distributions	(.96)	(.07)	(.07)	(.02)	—
Net asset value, end of period	**$ 6.79**	**$12.62**	**$11.91**	**$11.05**	**$ 9.88**
Total Return (%)	(41.29)[b]	6.59	8.43	12.11	11.51
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	73	169	193	195	187
Ratio of expenses before expense reductions (%)	.91	.90	.85	.92	1.06
Ratio of expenses after expense reductions (%)	.90	.90	.85	.92	1.06
Ratio of net investment income (loss) (%)	1.10	.93	.68	.45	.34
Portfolio turnover rate (%)	58	73	44	32	52

[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, 2008

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.

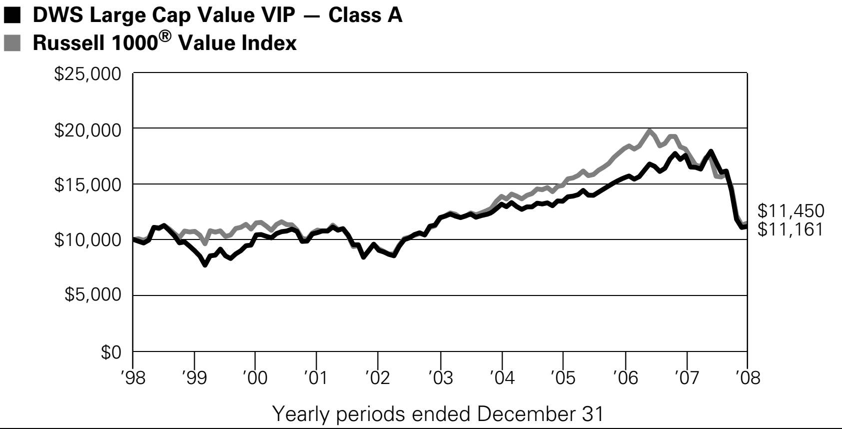
The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.83% and 1.08% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

Risk Considerations

The Portfolio is subject to stock market risk. The Portfolio may focus its investments on certain economic sectors, thereby increasing its vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Please read this Portfolio's prospectus for specific details regarding its investments and risk profile.

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	$6,360	$8,306	$9,322	$11,161
	Average annual total return	–36.40%	–6.00%	–1.39%	1.10%
Russell 1000 Value Index	Growth of $10,000	$6,315	$7,707	$9,611	$11,450
	Average annual total return	–36.85%	–8.32%	–.79%	1.36%

DWS Large Cap Value VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$6,336	$8,213	$9,148	$10,634
	Average annual total return	–36.64%	–6.35%	–1.77%	.95%
Russell 1000 Value Index	Growth of $10,000	$6,315	$7,707	$9,611	$11,087
	Average annual total return	–36.85%	–8.32%	–.79%	1.60%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 658.30	$ 657.30
Expenses Paid per $1,000*	$ 3.54	$ 5.00
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,020.86	$1,019.10
Expenses Paid per $1,000*	$ 4.32	$ 6.09

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Large Cap Value VIP	.85%	1.20%

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

The year just ended was the worst in many decades for the US equity markets. Essentially all equity indices posted negative returns for this period, as markets reflected economic problems including a housing slump, rising unemployment, a crisis of confidence and an extreme credit crunch. The Russell 3000® Index, which is generally regarded as a good indicator of the broad stock market, had a negative return of –37.31% for the 12 months ended December 31, 2008. Value stocks, as measured by the Russell 1000® Value index, performed somewhat better than growth stocks, as measured by the Russell 1000® Growth Index. With a return of –36.40% (Class A shares, unadjusted for contract charges), the Portfolio's performance was in line with that of its benchmark, the Russell 1000 Value Index, which had a return of –36.85%.

The major contributor to performance relative to the benchmark was an underweight and stock selection in the financials sector, where the Portfolio benefited from avoiding many of the worst-performing stocks.[1] Also positive was a position in PG&E Corp. in the utilities sector, a regulated company with an attractive yield.

Performance relative to the benchmark was hurt by an overweight and stock selection in the energy sector, which weakened significantly as oil prices dropped. Energy positions that detracted from performance include Suncor Energy, Inc. and Transocean Ltd.

Thomas Schuessler, Ph.D.
Portfolio Manager, Deutsche Asset Management International GmbH, Subadvisor to the Portfolio

The Russell 3000 Index is an unmanaged index that 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 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 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.

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.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Large Cap Value VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Energy	18%	26%
Health Care	16%	8%
Financials	14%	20%
Utilities	11%	13%
Consumer Staples	9%	9%
Information Technology	9%	6%
Industrials	9%	6%
Materials	5%	4%
Telecommunication Services	5%	4%
Consumer Discretionary	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. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 102.1%		
Consumer Discretionary 4.1%		
Distributors 1.7%		
Genuine Parts Co.	51,928	**1,965,994**
Hotels Restaurants & Leisure 1.2%		
Carnival Corp. (Unit)	57,115	**1,389,037**
Specialty Retail 1.2%		
Lowe's Companies, Inc.	68,098	**1,465,469**
Consumer Staples 9.5%		
Beverages 1.1%		
PepsiCo, Inc.	23,443	**1,283,973**
Food & Staples Retailing 1.9%		
CVS Caremark Corp.	76,599	**2,201,456**
Food Products 2.8%		
General Mills, Inc.	20,353	1,236,445
Kraft Foods, Inc. "A"	78,857	2,117,310
		3,353,755
Tobacco 3.7%		
Altria Group, Inc.	139,619	2,102,662
Philip Morris International, Inc.	51,700	2,249,467
		4,352,129
Energy 18.2%		
Energy Equipment & Services 5.0%		
ENSCO International, Inc.	46,040	1,307,076
Halliburton Co.	105,501	1,918,008
National-Oilwell Varco, Inc.*	37,711	921,657
Transocean Ltd.*	38,072	1,798,902
		5,945,643
Oil, Gas & Consumable Fuels 13.2%		
Chevron Corp.	31,711	2,345,663
ConocoPhillips	41,604	2,155,087
Devon Energy Corp.	20,747	1,363,285
ExxonMobil Corp.	30,352	2,423,000
Marathon Oil Corp.	73,580	2,013,149
Nexen, Inc. (a)	71,738	1,261,154
Noble Energy, Inc.	31,753	1,562,883
Occidental Petroleum Corp.	18,231	1,093,678
Suncor Energy, Inc.	72,463	1,413,028
		15,630,927
Financials 14.3%		
Capital Markets 1.7%		
Affiliated Managers Group, Inc.*	9,927	416,140
Eaton Vance Corp.	22,730	477,557
Jefferies Group, Inc.	34,968	491,650
TD Ameritrade Holding Corp.*	47,617	678,542
		2,063,889
Commercial Banks 3.0%		
Canadian Imperial Bank of Commerce	34,343	1,433,820
PNC Financial Services Group, Inc.	9,553	468,097
Synovus Financial Corp. (a)	49,923	414,361
Wells Fargo & Co.	39,979	1,178,581
		3,494,859
Consumer Finance 0.5%		
Capital One Financial Corp.	16,821	**536,422**
Diversified Financial Services 2.8%		
Bank of America Corp.	40,787	574,281
JPMorgan Chase & Co.	49,502	1,560,798
NYSE Euronext	42,876	1,173,945
		3,309,024
Insurance 5.8%		
ACE Ltd.	32,384	1,713,761
Alleghany Corp.*	2,115	596,430
Aon Corp.	29,703	1,356,833
Arthur J. Gallagher & Co.	30,672	794,711
Hartford Financial Services Group, Inc.	34,747	570,546
MetLife, Inc.	17,060	594,712
PartnerRe Ltd.	9,029	643,497
Prudential Financial, Inc.	20,352	615,851
		6,886,341
Thrifts & Mortgage Finance 0.5%		
Capitol Federal Financial (a)	12,711	**579,622**
Health Care 15.7%		
Health Care Equipment & Supplies 3.6%		
Baxter International, Inc.	31,401	1,682,780
Becton, Dickinson & Co.	37,318	2,552,178
		4,234,958
Health Care Providers & Services 2.5%		
Medco Health Solutions, Inc.*	35,335	1,480,890
WellPoint, Inc.*	35,879	1,511,582
		2,992,472
Life Sciences Tools & Services 1.7%		
Thermo Fisher Scientific, Inc.*	59,544	**2,028,664**
Pharmaceuticals 7.9%		
Abbott Laboratories	11,304	603,294
Merck & Co., Inc.	64,802	1,969,981
Pfizer, Inc.	136,969	2,425,721
Teva Pharmaceutical Industries Ltd. (ADR) (a)	56,283	2,395,967
Wyeth	50,317	1,887,391
		9,282,354
Industrials 8.7%		
Aerospace & Defense 3.4%		
Honeywell International, Inc.	66,304	2,176,760
United Technologies Corp.	33,943	1,819,345
		3,996,105
Electrical Equipment 2.2%		
Emerson Electric Co.	72,781	**2,664,512**
Machinery 3.1%		
Dover Corp.	53,823	1,771,853
Parker Hannifin Corp.	43,642	1,856,531
		3,628,384

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

	Shares	Value ($)
Information Technology 9.4%		
Communications Equipment 2.4%		
Brocade Communications Systems, Inc.*	328,090	918,652
Nokia Oyj (ADR)	123,145	1,921,062
		2,839,714
Computers & Peripherals 0.5%		
EMC Corp.*	57,391	**600,884**
Semiconductors & Semiconductor Equipment 3.8%		
Intel Corp.	129,198	1,894,043
Taiwan Semiconductor Manufacturing Co., Ltd. (ADR)	253,605	2,003,479
Texas Instruments, Inc.	37,000	574,240
		4,471,762
Software 2.7%		
Microsoft Corp.	102,252	1,987,779
Oracle Corp.*	71,205	1,262,464
		3,250,243
Materials 5.5%		
Chemicals 3.4%		
Air Products & Chemicals, Inc.	41,508	2,086,607
Praxair, Inc.	32,038	1,901,776
		3,988,383
Containers & Packaging 1.4%		
Sonoco Products Co.	72,823	**1,686,581**
Metals & Mining 0.7%		
Freeport-McMoRan Copper & Gold, Inc.	35,566	**869,233**
Telecommunication Services 5.3%		
Diversified Telecommunication Services		
AT&T, Inc.	119,781	3,413,758
BCE, Inc.	62,667	1,284,047
Verizon Communications, Inc.	45,999	1,559,366
		6,257,171
Utilities 11.4%		
Electric Utilities 9.1%		
Allegheny Energy, Inc.	59,022	1,998,485
Duke Energy Corp.	128,716	1,932,027
Entergy Corp.	13,720	1,140,544
Exelon Corp.	15,863	882,141
FirstEnergy Corp.	46,472	2,257,610
FPL Group, Inc.	31,324	1,576,537
Southern Co.	23,997	887,889
		10,675,233
Multi-Utilities 2.3%		
PG&E Corp.	71,041	**2,749,998**
Total Common Stocks (Cost $139,608,097)		**120,675,191**
Securities Lending Collateral 2.0%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $2,379,975)	2,379,975	**2,379,975**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $141,988,072)†	104.1	**123,055,166**
Other Assets and Liabilities, Net	(4.1)	**(4,818,822)**
Net Assets	100.0	**118,236,344**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $145,375,182. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $22,320,016. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $5,597,260 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $27,917,276.*

(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, 2008 amounted to $2,357,044 which is 2.0% 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

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities
Level 1	$ 123,055,166
Level 2	—
Level 3	—
Total	**$ 123,055,166**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investments in securities, at value (cost $139,608,097) — including $2,357,044 of securities loaned	$ 120,675,191
Investment in Daily Assets Fund Institutional (cost $2,379,975)*	2,379,975
Total investments, at value (cost $141,988,072)	123,055,166
Cash	39,788
Dividends receivable	274,190
Interest receivable	4,062
Receivable for Portfolio shares sold	1,133,615
Due from Advisor	154
Other assets	5,215
Total assets	124,512,190
Liabilities	
Notes payable	750,000
Payable upon return of securities loaned	2,379,975
Payable for Portfolio shares redeemed	297,616
Payable for investments purchased	2,615,687
Accrued management fee	61,803
Other accrued expenses and payables	170,765
Total liabilities	6,275,846
Net assets, at value	**$ 118,236,344**
Net Assets Consist of	
Undistributed net investment income	2,799,366
Net unrealized appreciation (depreciation) on:	
Investments	(18,932,906)
Foreign currency	(366)
Accumulated net realized gain (loss)	(28,851,060)
Paid-in capital	163,221,310
Net assets, at value	**$ 118,236,344**
Class A	
Net Asset Value, offering and redemption price per share ($117,944,074 ÷ 13,220,277 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 8.92**
Class B	
Net Asset Value, offering and redemption price per share ($292,270 ÷ 32,776 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 8.92**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $60,124)	$ 4,272,348
Interest — Cash Management QP Trust	261,072
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	49,531
Total Income	4,582,951
Expenses:	
Management fee	1,214,541
Administration fee	186,852
Services to shareholders	297
Custodian fee	15,698
Professional fees	63,000
Distribution service fee (Class B)	6,151
Record keeping fees (Class B)	2,582
Trustees' fees and expenses	20,856
Reports to shareholders and shareholder meeting	115,320
Interest expense	197
Other	6,781
Total expenses before expense reductions	1,632,275
Expense reductions	(11,364)
Total expenses after expense reductions	1,620,911
Net investment income (loss)	**2,962,040**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(26,827,361)
Foreign currency	(13,387)
	(26,840,748)
Change in net unrealized appreciation (depreciation) on:	
Investments	(52,635,232)
Foreign currency	(430)
	(52,635,662)
Net gain (loss)	**(79,476,410)**
Net increase (decrease) in net assets resulting from operations	**$ (76,514,370)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ 2,962,040	$ 4,055,644
Net realized gain (loss)	(26,840,748)	52,371,462
Change in net unrealized appreciation (depreciation)	(52,635,662)	(20,593,300)
Net increase (decrease) in net assets resulting from operations	(76,514,370)	35,833,806
Distributions to shareholders from:		
Net investment income:		
Class A	(3,899,692)	(4,770,707)
Class B	(108,225)	(538,814)
Net realized gains:		
Class A	(50,886,890)	(9,924,139)
Class B	(1,761,177)	(1,431,558)
Total Distributions	$ (56,655,984)	$ (16,665,218)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	23,340,147	14,988,182
Reinvestment of distributions	54,786,582	14,694,846
Cost of shares redeemed	(58,393,451)	(93,544,614)
Net increase (decrease) in net assets from Class A share transactions	19,733,278	(63,861,586)
Class B		
Proceeds from shares sold	480,950	699,209
Reinvestment of distributions	1,869,402	1,970,372
Cost of shares redeemed	(7,955,451)	(35,609,682)
Net increase (decrease) in net assets from Class B share transactions	(5,605,099)	(32,940,101)
Increase (decrease) in net assets	(119,042,175)	(77,633,099)
Net assets at beginning of period	237,278,519	314,911,618
Net assets at end of period (including undistributed net investment income of $2,799,366 and $3,977,565, respectively)	**$ 118,236,344**	**$ 237,278,519**

Other Information		
Class A		
Shares outstanding at beginning of period	11,941,625	15,303,964
Shares sold	1,675,530	804,074
Shares issued to shareholders in reinvestment of distributions	4,201,425	857,842
Shares redeemed	(4,598,303)	(5,024,255)
Net increase (decrease) in Class A shares	1,278,652	(3,362,339)
Shares outstanding at end of period	**13,220,277**	**11,941,625**
Class B		
Shares outstanding at beginning of period	412,771	2,232,310
Shares sold	38,113	38,354
Shares issued to shareholders in reinvestment of distributions	143,030	114,823
Shares redeemed	(561,138)	(1,972,716)
Net increase (decrease) in Class B shares	(379,995)	(1,819,539)
Shares outstanding at end of period	**32,776**	**412,771**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$19.21**	**$17.96**	**$15.81**	**$15.79**	**$14.57**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.21	.26	.29[c]	.26	.27
Net realized and unrealized gain (loss)	(5.68)	1.98	2.12	.04	1.18
Total from investment operations	(5.47)	2.24	2.41	.30	1.45
Less distributions from:					
Net investment income	(.34)	(.32)	(.26)	(.28)	(.23)
Net realized gains	(4.48)	(.67)	—	—	—
Total Distributions	(4.82)	(.99)	(.26)	(.28)	(.23)
Net asset value, end of period	**$ 8.92**	**$19.21**	**$17.96**	**$15.81**	**$15.79**
Total Return (%)	(36.40)[b]	13.15[b,d]	15.41[c]	1.97[b]	10.07
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	118	229	275	268	274
Ratio of expenses before expense reductions (%)	.87	.83	.83	.80	.80
Ratio of expenses after expense reductions (%)	.86	.82	.83	.80	.80
Ratio of net investment income (loss) (%)	1.59	1.43	1.73[c]	1.64	1.84
Portfolio turnover rate (%)	97	103	76	64	40

[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 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 to reimburse the effect of losses incurred as the result of certain operation errors during the period. Excluding this reimbursement, total return would have been 0.04% lower.*

Class B

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$19.20**	**$17.94**	**$15.79**	**$15.77**	**$14.55**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.12	.19	.23[c]	.19	.22
Net realized and unrealized gain (loss)	(5.64)	1.99	2.11	.05	1.17
Total from investment operations	(5.52)	2.18	2.34	.24	1.39
Less distributions from:					
Net investment income	(.28)	(.25)	(.19)	(.22)	(.17)
Net realized gains	(4.48)	(.67)	—	—	—
Total Distributions	(4.76)	(.92)	(.19)	(.22)	(.17)
Net asset value, end of period	**$ 8.92**	**$19.20**	**$17.94**	**$15.79**	**$15.77**
Total Return (%)	(36.64)[b]	12.77[b,d]	14.96[c]	1.58[b]	9.65
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.29	8	40	40	40
Ratio of expenses before expense reductions (%)	1.28	1.21	1.21	1.21	1.18
Ratio of expenses after expense reductions (%)	1.26	1.20	1.21	1.20	1.18
Ratio of net investment income (loss) (%)	1.20	1.06	1.35[c]	1.24	1.46
Portfolio turnover rate (%)	97	103	76	64	40

[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 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 to reimburse the effect of losses incurred as the result of certain operation errors during the period. Excluding this reimbursement, total return would have been 0.04% lower.*

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.

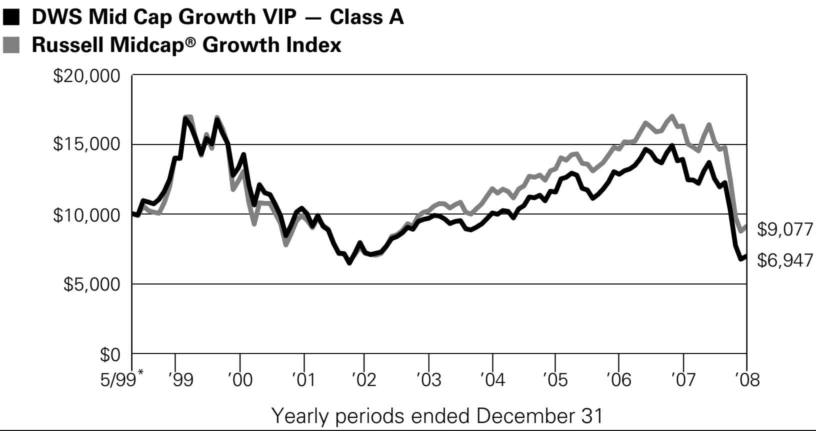
The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.95% and 1.20% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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.

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 12/31/2008



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	$4,996	$6,007	$7,181	$6,947
	Average annual total return	–50.04%	–15.62%	–6.41%	–3.70%
Russell Midcap Growth Index	Growth of $10,000	$5,568	$6,865	$8,887	$9,077
	Average annual total return	–44.32%	–11.79%	–2.33%	–1.00%

DWS Mid Cap Growth VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$4,974	$5,934	$7,049	$8,937
	Average annual total return	–50.04%	–15.97%	–6.76%	–1.71%
Russell Midcap Growth Index	Growth of $10,000	$5,568	$6,865	$8,887	$11,466
	Average annual total return	–44.32%	–11.79%	–2.33%	2.13%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 554.20	$ 552.00
Expenses Paid per $1,000*	$ 4.06	$ 6.20
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,019.91	$1,017.14
Expenses Paid per $1,000*	$ 5.28	$ 8.06

* *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 366.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Mid Cap Growth VIP	1.04%	1.59%

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

The past year has proven to be the most difficult period for global financial markets since the 1930s, with virtually all market indices posting decisively negative results. The bursting of the US housing market bubble set in motion a chain of events that culminated late last summer in the near paralysis of the global financial system. These events led to a widening in credit spreads and a complete seize-up of credit-related activity.[1] As the crisis grew, and market volatility hit an all-time high, the federal government intervened to prevent the failure of once venerable institutions such as AIG, Fannie Mae and Freddie Mac. The growing inability of businesses and consumers to access credit led to a sharp contraction in global economic activity by the fourth quarter. Central banks around the world cut key interest rates in an effort to jump-start economic activity. Determined not to repeat the policy errors that led to the Great Depression, the US Federal Reserve Board (the Fed) gradually lowered its target for short-term interest rates to a range between 0% and 0.25%, and has aggressively used its balance sheet to provide credit market liquidity. President-elect Obama has called the revival of the economy his first priority, and the new administration intends to implement a huge fiscal stimulus plan.

For the 12-month period ended December 31, 2008, the Portfolio returned –50.04% (Class A shares, unadjusted for contract charges), compared with the –44.32% return of the Russell Midcap® Growth Index.

Positive contributors to performance for the 12-month period included an overweight position in telecom services and underweight positions in utilities and materials.[2] Stock selection was positive in the energy and utilities sectors but was offset by unfavorable stock selection within financials, industrials, health care and consumer staples. Individual detractors from performance included Affiliated Managers Group, Inc.* in the financials sector, and BE Aerospace, Inc.* from the industrials sector. Within the energy and utilities sectors, respectively, the Portfolio's holdings in Southwestern Energy Co. and Constellation Energy Group, Inc.* contributed to performance. We continue to maintain a long-term perspective, investing in quality mid-cap growth stocks.

Joseph Axtell, CFA   Rafaelina M. Lee   Jeffrey Saeger, CFA
Portfolio Managers, Deutsche Investment Management Americas Inc.

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 *Credit spread is the additional yield provided by non-Treasury fixed-income securities versus Treasury securities.*

2 *"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.*

* *Not held in the Portfolio as of December 31, 2008.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Mid Cap Growth VIP

Asset Allocation (As a% of Investment Portfolio Excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	97%	99%
Cash Equivalents	3%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Information Technology	22%	26%
Health Care	17%	12%
Consumer Discretionary	17%	14%
Industrials	13%	18%
Energy	10%	11%
Financials	8%	9%
Materials	4%	3%
Consumer Staples	4%	2%
Telecommunication Services	3%	5%
Utilities	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. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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, 2008

DWS Mid Cap Growth VIP

	Shares	Value ($)
Common Stocks 97.1%		
Consumer Discretionary 16.5%		
Diversified Consumer Services 1.1%		
Strayer Education, Inc. (a)	900	**192,969**
Hotels Restaurants & Leisure 1.6%		
Darden Restaurants, Inc. (a)	10,200	**287,436**
Internet & Catalog Retail 1.5%		
Priceline.com, Inc.* (a)	3,850	**283,552**
Specialty Retail 9.9%		
American Eagle Outfitters, Inc. (a)	21,000	196,560
Children's Place Retail Stores, Inc.* (a)	17,500	379,400
Guess?, Inc.	28,400	435,940
Limited Brands, Inc.	17,800	178,712
Tiffany & Co. (a)	5,600	132,328
Urban Outfitters, Inc.* (a)	33,300	498,834
		1,821,774
Textiles, Apparel & Luxury Goods 2.4%		
Deckers Outdoor Corp.*	2,500	199,675
Lululemon Athletica, Inc.* (a)	12,500	99,125
Polo Ralph Lauren Corp. (a)	3,000	136,230
		435,030
Consumer Staples 3.6%		
Personal Products		
Herbalife Ltd.	22,500	487,800
NBTY, Inc.*	10,500	164,325
		652,125
Energy 10.1%		
Energy Equipment & Services 3.1%		
Cameron International Corp.*	9,000	184,500
CARBO Ceramics, Inc. (a)	6,100	216,733
FMC Technologies, Inc.*	7,500	178,725
		579,958
Oil, Gas & Consumable Fuels 7.0%		
Alpha Natural Resources, Inc.*	5,600	90,664
Petrohawk Energy Corp.*	16,500	257,895
Range Resources Corp.	7,500	257,925
Southwestern Energy Co.*	13,000	376,610
Ultra Petroleum Corp.* (a)	8,530	294,370
		1,277,464
Financials 7.3%		
Capital Markets 5.5%		
Northern Trust Corp.	3,500	182,490
T. Rowe Price Group, Inc. (a)	9,700	343,768
TD Ameritrade Holding Corp.* (a)	19,100	272,175
Waddell & Reed Financial, Inc. "A"	13,700	211,802
		1,010,235
Diversified Financial Services 1.8%		
MSCI, Inc. "A"*	18,164	**322,593**

	Shares	Value ($)
Health Care 16.9%		
Biotechnology 2.6%		
Alexion Pharmaceuticals, Inc.* (a)	1,200	43,428
BioMarin Pharmaceutical, Inc.* (a)	3,000	53,400
Cephalon, Inc.* (a)	3,700	285,048
Genzyme Corp.*	1,400	92,918
		474,794
Health Care Providers & Services 5.7%		
AMERIGROUP Corp.*	10,700	315,864
Humana, Inc.*	4,700	175,216
McKesson Corp.	7,500	290,475
Pediatrix Medical Group, Inc.* (a)	8,400	266,280
		1,047,835
Life Sciences Tools & Services 4.4%		
Covance, Inc.*	4,900	225,547
Pharmaceutical Product Development, Inc.	20,100	583,101
		808,648
Pharmaceuticals 4.2%		
Mylan, Inc.* (a)	56,700	560,763
Shire PLC (ADR) (a)	4,800	214,944
		775,707
Industrials 12.5%		
Aerospace & Defense 1.5%		
Curtiss-Wright Corp.	8,400	**280,476**
Construction & Engineering 0.8%		
Aecom Technology Corp.*	4,700	**144,431**
Electrical Equipment 3.3%		
First Solar, Inc.* (a)	1,500	206,940
Roper Industries, Inc. (a)	9,150	397,202
		604,142
Machinery 2.3%		
Harsco Corp.	8,600	238,048
Joy Global, Inc. (a)	8,000	183,120
		421,168
Professional Services 4.6%		
FTI Consulting, Inc.* (a)	2,900	129,572
Huron Consulting Group, Inc.* (a)	7,000	400,890
Robert Half International, Inc. (a)	15,200	316,464
		846,926
Information Technology 21.3%		
Communications Equipment 5.3%		
Ciena Corp.* (a)	43,800	293,460
F5 Networks, Inc.* (a)	16,200	370,332
Juniper Networks, Inc.* (a)	17,800	311,678
		975,470
Electronic Equipment, Instruments & Components 1.7%		
Itron, Inc.* (a)	4,850	**309,139**
Internet Software & Services 2.7%		
Omniture, Inc.* (a)	23,000	244,720
VeriSign, Inc.*	13,200	251,856
		496,576

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

	Shares	Value ($)
IT Services 0.5%		
ManTech International Corp. "A"*	1,800	**97,542**
Semiconductors & Semiconductor Equipment 4.5%		
Broadcom Corp. "A"*	19,000	322,430
Marvell Technology Group Ltd.*	27,600	184,092
Microchip Technology, Inc. (a)	8,900	173,817
Tessera Technologies, Inc.*	12,000	142,560
		822,899
Software 6.6%		
Adobe Systems, Inc.*	8,300	176,707
Autodesk, Inc.*	10,600	208,290
Blackboard, Inc.* (a)	11,300	296,399
Concur Technologies, Inc.* (a)	6,300	206,766
Electronic Arts, Inc.*	8,000	128,320
Salesforce.com, Inc.* (a)	6,000	192,060
		1,208,542
Materials 4.1%		
Chemicals 0.9%		
Intrepid Potash, Inc.* (a)	8,200	**170,314**
Construction Materials 0.7%		
Martin Marietta Materials, Inc. (a)	1,400	**135,912**
Containers & Packaging 1.0%		
Owens-Illinois, Inc.*	6,800	**185,844**
Metals & Mining 1.5%		
Gerdau Ameristeel Corp.	44,000	**266,640**
Telecommunication Services 2.8%		
Wireless Telecommunication Services		
American Tower Corp. "A"*	17,200	**504,304**
Utilities 2.0%		
Electric Utilities		
Allegheny Energy, Inc.	11,100	**375,846**
Total Common Stocks (Cost $23,178,904)		**17,816,291**
Securities Lending Collateral 30.3%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $5,559,666)	5,559,666	**5,559,666**
Cash Equivalents 2.9%		
Cash Management QP Trust, 1.42% (b) (Cost $528,882)	528,882	**528,882**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $29,267,452)†	130.3	**23,904,839**
Other Assets and Liabilities, Net (a)	(30.3)	**(5,556,900)**
Net Assets	100.0	**18,347,939**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $29,521,967. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $5,617,128. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $798,063 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,415,191.*

(a) *All or a portion of these securities were on loan amounting to $5,557,998 (see Notes to Financial Statements). In addition, included in other assets and liabilities, net is a pending sale, amounting to $13,097, that is also on loan. The value of all securities loaned at December 31, 2008 amounted to $5,571,095, which is 30.4% of net assets.*

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

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

ADR: American Depositary Receipt

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**
Level 1	$ 23,375,957
Level 2	528,882
Level 3	—
Total	**$ 23,904,839**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $23,178,904) — including $5,557,998 of securities loaned	$	17,816,291
Investment in Daily Assets Fund Institutional (cost $5,559,666)*		5,559,666
Investment in Cash Management QP Trust (cost $528,882)		528,882
Total investments, at value (cost $29,267,452)		23,904,839
Cash		4,522
Receivable for investments sold		46,802
Receivable for Portfolio shares sold		28,503
Dividends receivable		10,780
Interest receivable		8,020
Due from Advisor		92
Other assets		1,117
Total assets		24,004,675
Liabilities		
Payable for Portfolio shares redeemed		1,063
Payable upon return of securities loaned		5,559,666
Accrued management fee		13,397
Other accrued expenses and payables		82,610
Total liabilities		5,656,736
Net assets, at value	**$**	**18,347,939**
Net Assets Consist of		
Accumulated net investment loss		(4,978)
Net unrealized appreciation (depreciation) on investments		(5,362,613)
Accumulated net realized gain (loss)		(24,846,885)
Paid-in capital		48,562,415
Net assets, at value	**$**	**18,347,939**
Class A		
Net Asset Value, offering and redemption price per share ($18,326,779 ÷ 2,694,618 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.80**
Class B		
Net Asset Value, offering and redemption price per share ($21,160 ÷ 3,171 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.67**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Dividends (net of foreign taxes withheld of $3,370)	$	183,829
Interest — Cash Management QP Trust		18,417
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		97,401
Total Income		299,647
Expenses:		
Management fee		252,379
Administration fee		21,460
Services to shareholders		154
Custodian and accounting fees		30,531
Distribution service fee (Class B)		1,412
Record keeping fees (Class B)		571
Legal		11,231
Audit and tax fees		50,159
Trustees' fees and expenses		6,241
Reports to shareholders and shareholder meeting		47,095
Other		2,891
Total expenses before expense reductions		424,124
Expense reductions		(54,105)
Total expenses after expense reductions		370,019
Net investment income (loss)		**(70,372)**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		(4,292,837)
Change in net unrealized appreciation (depreciation) on investments		(17,648,743)
Net gain (loss)		**(21,941,580)**
Net increase (decrease) in net assets resulting from operations	**$**	**(22,011,952)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ (70,372)	$ (238,874)
Net realized gain (loss)	(4,292,837)	8,021,447
Change in net unrealized appreciation (depreciation)	(17,648,743)	(2,652,715)
Net increase (decrease) in net assets resulting from operations	(22,011,952)	5,129,858
Portfolio share transactions:		
Class A		
Proceeds from shares sold	3,106,392	7,675,878
Cost of shares redeemed	(13,526,182)	(14,497,003)
Net increase (decrease) in net assets from Class A share transactions	(10,419,790)	(6,821,125)
Class B		
Proceeds from shares sold	46,809	1,053,940
Cost of shares redeemed	(1,840,021)	(7,779,098)
Net increase (decrease) in net assets from Class B share transactions	(1,793,212)	(6,725,158)
Increase (decrease) in net assets	(34,224,954)	(8,416,425)
Net assets at beginning of period	52,572,893	60,989,318
Net assets at end of period (including accumulated net investment loss of $4,978 and $6,766, respectively)	**$ 18,347,939**	**$ 52,572,893**

Other Information		
Class A		
Shares outstanding at beginning of period	3,720,929	4,226,008
Shares sold	300,045	567,035
Shares redeemed	(1,326,356)	(1,072,114)
Net increase (decrease) in Class A shares	(1,026,311)	(505,079)
Shares outstanding at end of period	**2,694,618**	**3,720,929**
Class B		
Shares outstanding at beginning of period	145,552	640,328
Shares sold	4,043	79,290
Shares redeemed	(146,424)	(574,066)
Net increase (decrease) in Class B shares	(142,381)	(494,776)
Shares outstanding at end of period	**3,171**	**145,552**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$13.61**	**$12.56**	**$11.32**	**$ 9.84**	**$ 9.46**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.02)	(.05)	(.06)[c]	(.05)	(.01)
Net realized and unrealized gain (loss)	(6.79)	1.10	1.30	1.53	.39
Total from investment operations	(6.81)	1.05	1.24	1.48	.38
Net asset value, end of period	**$ 6.80**	**$13.61**	**$12.56**	**$11.32**	**$ 9.84**
Total Return (%)[b]	(50.04)	8.36	10.95[c]	15.04	4.02
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	18	51	53	57	53
Ratio of expenses before expense reductions (%)	1.17	1.05	1.03	1.01	1.02
Ratio of expenses after expense reductions (%)	1.02	.90	.93	.95	.95
Ratio of net investment income (loss) (%)	(.19)	(.38)	(.51)[c]	(.45)	(.11)
Portfolio turnover rate (%)	82	68	46	104	103

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 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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$13.35**	**$12.37**	**$11.19**	**$ 9.76**	**$ 9.42**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.09)	(.10)	(.10)[c]	(.09)	(.05)
Net realized and unrealized gain (loss)	(6.59)	1.08	1.28	1.52	.39
Total from investment operations	(6.68)	.98	1.18	1.43	.34
Net asset value, end of period	**$ 6.67**	**$13.35**	**$12.37**	**$11.19**	**$ 9.76**
Total Return (%)[b]	(50.04)	7.92	10.55[c]	14.65	3.61
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.02	2	8	7	6
Ratio of expenses before expense reductions (%)	1.68	1.43	1.42	1.40	1.41
Ratio of expenses after expense reductions (%)	1.49	1.28	1.29	1.32	1.34
Ratio of net investment income (loss) (%)	(.66)	(.76)	(.87)[c]	(.82)	(.50)
Portfolio turnover rate (%)	82	68	46	104	103

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 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.*

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DWS Money Market VIP

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Expenses and Value of a $1,000 Investment for the six months ended December 31, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,011.50	$1,010.30
Expenses Paid per $1,000*	$ 2.58	$ 3.59

Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,022.57	$1,021.57
Expenses Paid per $1,000*	$ 2.59	$ 3.61

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Money Market VIP	.51%	.71%

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

Over the course of 2008, we witnessed unprecedented events in the money markets as well as in financial markets worldwide. The massive credit crunch that originated with problems in the US subprime mortgage market as well as securitized mortgages eventually brought down several financial firms, including Bear Stearns and Lehman Brothers, and transformed Wall Street. September in particular was a traumatic month for the financial industry as severe losses and the general liquidity squeeze forced major financial companies such as Merrill Lynch, AIG, Washington Mutual and Wachovia to seek a rescue through government bailout or merger. In response to a general freeze-up in money market liquidity, the US government created new lending facilities for commercial paper and asset-backed commercial paper, as well for the money markets. The government also issued new short-term Treasury instruments to meet strong investor demand. By the fourth quarter, these new government programs seemed to be restoring some measure of liquidity in the money markets, though we believe it will take some time for normalcy to be restored.

During the 12-month period ended December 31, 2008, the Portfolio provided a total return of 2.64% (Class A shares, unadjusted for contract charges) compared with the 2.23% average return for the 106 funds in the Lipper Money Market Variable Annuity Funds category for the same period, according to Lipper Inc. The 7-day current yield as of December 31, 2008 was 1.59%. The investment advisor has agreed to waive certain fees/reimburse expenses. Without such fee waivers/expense reimbursements, the 7-day current yield would have been 1.31% as of December 31, 2008.

Given the difficult situation throughout the investment markets, and understanding that the credit crunch would not be a short-term phenomenon, our strategy for DWS Money Market VIP during the earlier part of 2008 was to emphasize liquidity and high credit quality while looking for ways to maximize yield potential when opportunities presented themselves. In mid-September, when conditions in the money markets worsened drastically, we enacted a significantly more defensive strategy for the Portfolio, holding more overnight securities in the form of repurchase agreements.[1] We also purchased Treasury and agency instruments as well as corporate commercial paper, seeking the highest quality portfolio given the extremely difficult market conditions. As market conditions eased, we extended maturity with the highest quality securities.

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.

1 *Repurchase Agreements (Repos) — an agreement between a seller and a buyer, usually of government securities, where the seller agrees to repurchase the securities at a given price and usually at a stated time. Repos are widely used money market instruments that serve as an interest-bearing, short-term "parking place" for large sums of money.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Money Market VIP

Asset Allocation (As a % of Investment Portfolio)	**12/31/08**	**12/31/07**
Commercial Paper	41%	46%
Government & Agency Obligations	17%	4%
Certificates of Deposit and Bank Notes	16%	20%
Short-Term Notes	14%	22%
Repurchase Agreements	6%	2%
Time Deposit	4%	1%
Master Notes	2%	2%
Promissory Notes	—	2%
Asset Backed	—	1%
	100%	100%

Weighted Average Maturity*		
DWS Variable Series II — DWS Money Market VIP	61 days	41 days
First Tier Retail Money Fund Average	42 days	41 days

* *The Portfolio 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. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 16.2%		
Banco Bilbao Vizcaya Argentaria SA:		
3.09%, 3/9/2009	3,900,000	3,900,036
3.155%, 1/5/2009	2,600,000	2,600,001
Bank of America NA, 2.35%, 5/5/2009	3,500,000	3,500,000
Bank of Nova Scotia, 3.35%, 1/23/2009	4,500,000	4,500,000
Bank of Tokyo-Mitsubishi UFJ Ltd., 1.85%, 2/12/2009	4,500,000	4,500,000
BNP Paribas, 2.29%, 2/10/2009	2,000,000	2,000,022
Calyon, 2.2%, 3/11/2009	5,000,000	5,006,774
DNB NOR Bank ASA, 3.7%, 1/23/2009	5,000,000	5,000,000
Metropolitan Life Global Funding I, 144A, 3.8%, 1/20/2009	750,000	750,000
Mizuho Corporate Bank Ltd., 1.21%, 3/23/2009	6,500,000	6,500,146
Nordea Bank Finland PLC, 3.76%, 1/21/2009	6,250,000	6,251,812
Rabobank Nederland NV, 3.0%, 2/26/2009	3,000,000	3,000,000
Svenska Handelsbanken AB, 2.0%, 3/12/2009	6,500,000	6,500,000
Toronto-Dominion Bank:		
2.0%, 5/12/2009	3,000,000	3,000,000
2.52%, 5/12/2009	2,200,000	2,200,155
Westpac Banking Corp., 1.2%, 4/13/2009	5,000,000	5,000,000
Total Certificates of Deposit and Bank Notes (Cost $64,208,946)		**64,208,946**
Commercial Paper 40.8%		
Issued at Discount**		
ASB Finance Ltd., 3.1%, 3/6/2009	1,500,000	1,491,733
Australia & New Zealand Banking Group Ltd., 2.2%, 2/6/2009	4,500,000	4,490,100
Bank of America Corp.:		
3.1%, 2/12/2009	3,500,000	3,487,342
3.22%, 2/6/2009	4,300,000	4,286,154
BP Capital Markets PLC, 1.285%, 3/5/2009	5,000,000	4,988,756
CBA (Delaware) Finance, Inc., 1.0%, 2/17/2009	4,879,000	4,874,541
Danske Corp., 3.81%, 1/28/2009	4,300,000	4,287,713
DNB NOR Bank ASA, 2.0%, 3/13/2009	5,000,000	4,980,278
European Investment Bank:		
0.85%, 6/11/2009	2,500,000	2,490,496
1.775%, 3/6/2009	4,000,000	3,987,378
2.13%, 5/5/2009	3,500,000	3,474,322
General Electric Co., 3.35%, 4/20/2009	4,000,000	3,959,428
Greenwich Capital Markets, Inc., 3.1%, 3/9/2009	3,500,000	3,479,807
Hewlett-Packard Co., 0.38%, 2/13/2009	5,800,000	5,797,367
Kingdom of Denmark, 0.75%, 4/22/2009	4,000,000	3,990,750
Liberty Street Funding LLC, 4.6%, 1/16/2009	6,000,000	5,988,500
Nieuw Amsterdam Receivables Corp., 1.7%, 1/15/2009	4,000,000	3,997,356
Nissan Motor Acceptance Corp., 6.0%, 1/6/2009	3,000,000	2,997,500
Old Line Funding LLC, 4.25%, 1/15/2009	7,000,000	6,988,430
Pfizer, Inc.:		
0.5%, 5/11/2009	4,000,000	3,992,778
1.15%, 4/6/2009	2,000,000	1,993,931
1.2%, 3/19/2009	4,000,000	3,989,733
1.3%, 4/15/2009	3,000,000	2,988,733
2.52%, 3/2/2009	2,950,000	2,937,610
Procter & Gamble International Funding SCA:		
1.4%, 3/4/2009	4,000,000	3,990,356
2.23%, 2/12/2009	2,000,000	1,994,797
Shell International Finance BV:		
2.4%, 5/11/2009	2,000,000	1,982,667
2.5%, 3/9/2009	5,200,000	5,175,806
Starbird Funding Corp.:		
1.85%, 3/23/2009	5,000,000	4,979,187
3.2%, 2/6/2009	4,000,000	3,987,200
4.1%, 1/20/2009	6,400,000	6,386,151
Swedbank AB, 3.22%, 3/3/2009	2,000,000	1,989,088
Thunder Bay Funding LLC, 4.15%, 4/20/2009	4,000,000	3,949,739
Toyota Motor Credit Corp.:		
0.75%, 2/3/2009	5,000,000	4,996,562
2.1%, 4/1/2009	5,000,000	4,973,750
2.35%, 3/6/2009	4,000,000	3,983,289
3.4%, 1/26/2009	4,200,000	4,190,083
Victory Receivables Corp., 3.9%, 1/16/2009	6,400,000	6,389,600
Wal-Mart Stores, Inc., 0.75%, 9/8/2009	2,000,000	1,989,583
Westpac Banking Corp., 2.25%, 3/9/2009	5,500,000	5,476,969
Total Commercial Paper (Cost $162,375,563)		**162,375,563**
Short-Term Notes* 14.2%		
Abbey National Treasury Services PLC:		
0.881%, 4/24/2009	1,500,000	1,500,000
2.417%, 2/20/2009	2,000,000	2,000,000
Allied Irish Banks North America, Inc., 2.463%, 3/11/2009	3,000,000	3,000,000
Australia & New Zealand Banking Group Ltd.:		
144A, 2.409%, 7/10/2009	1,000,000	1,000,000
144A, 2.426%, 7/2/2009	2,000,000	2,000,000
Bank of America NA, 144A, 4.35%, 7/6/2009	1,900,000	1,900,000
Bank of Nova Scotia, 3.056%, 5/6/2009	3,300,000	3,300,000
Bank of Scotland PLC, 2.916%, 6/5/2009	1,200,000	1,200,000
Barclays Bank PLC, 0.097%, 2/27/2009	3,000,000	3,000,000
BNP Paribas, 2.445%, 5/13/2009	1,500,000	1,500,000
Credit Agricole SA, 144A, 1.775%, 7/22/2009	2,500,000	2,500,000

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

	Principal Amount ($)	Value ($)
General Electric Co., 0.501%, 9/24/2009	10,000,000	10,000,000
ING Bank NV, 144A, 1.716%, 3/26/2009	750,000	750,000
Intesa Sanpaolo SpA:		
1.695%, 5/13/2009	2,800,000	2,800,000
2.451%, 3/5/2009	3,000,000	3,000,000
JPMorgan Chase & Co., 4.19%, 4/3/2009	4,000,000	3,999,949
Metropolitan Life Global Funding I, 144A, 4.57%, 5/11/2009	750,000	750,000
National Australia Bank Ltd.:		
144A, 2.438%, 2/19/2009	2,000,000	2,000,000
4.543%, 4/7/2009	1,250,000	1,250,000
Natixis, 2.442%, 4/6/2009	3,000,000	3,000,000
Procter & Gamble International Funding SCA, 2.308%, 2/19/2009	750,000	750,000
Rabobank Nederland NV, 144A, 2.577%, 10/9/2009	2,000,000	2,000,000
Royal Bank of Canada, 144A, 1.595%, 7/15/2009	1,800,000	1,800,000
Svenska Handelsbanken AB, 144A, 3.885%, 5/26/2009	1,500,000	1,500,000
Total Short-Term Notes (Cost $56,499,949)		**56,499,949**

Master Notes 2.0%

Citigroup Global Markets, Inc., 0.19%*, 1/2/2009 (a) (Cost $8,000,000)	8,000,000	**8,000,000**

Time Deposit 4.0%

Canadian Imperial Bank of Commerce, 0.01%, 1/2/2009 (Cost $15,937,000)	15,937,000	**15,937,000**

Government & Agency Obligations 16.6%

US Government Sponsored Agencies 16.1%

	Principal Amount ($)	Value ($)
Federal Home Loan Bank:		
0.39%*, 4/3/2009	1,200,000	1,200,000
2.35%**, 2/11/2009	1,800,000	1,795,182
2.36%**, 5/12/2009	1,250,000	1,239,265
2.5%**, 4/14/2009	5,200,000	5,162,805
2.53%**, 1/26/2009	3,500,000	3,493,851
2.73%**, 1/20/2009	4,000,000	3,994,237
2.74%**, 2/24/2009	1,750,000	1,742,807
3.0%**, 4/20/2009	2,000,000	1,981,833
Federal Home Loan Mortgage Corp.:		
0.55%**, 8/3/2009	5,000,000	4,983,653
1.3%**, 4/2/2009	5,000,000	4,983,569
1.75%**, 5/27/2009	2,000,000	1,985,806
2.41%**, 3/19/2009	2,000,000	1,989,691
Federal National Mortgage Association:		
0.45%**, 5/20/2009	4,500,000	4,492,181
1.25%**, 6/11/2009	4,000,000	3,977,639
1.7%**, 6/30/2009	2,500,000	2,478,750
1.75%**, 5/29/2009	4,300,000	4,269,064
1.9%**, 7/27/2009	8,000,000	7,912,600
2.46%**, 3/19/2009	2,000,000	1,989,477
2.75%**, 3/16/2009	4,250,000	4,225,976
		63,898,386

US Treasury Obligation 0.5%

US Treasury Bill, 0.99%**, 5/15/2009	2,200,000	**2,191,893**
Total Government & Agency Obligations (Cost $66,090,279)		**66,090,279**

Repurchase Agreements 6.3%

JPMorgan Securities, Inc., 0.04%, dated 12/31/2008, to be repurchased at $25,000,056 on 1/2/2009 (b) (Cost $25,000,000)	25,000,000	**25,000,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $398,111,737)†	100.1	**398,111,737**
Other Assets and Liabilities, Net	(0.1)	**(320,742)**
Net Assets	100.0	**397,790,995**

† *The cost for federal income tax purposes was $398,111,737.*

* *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, 2008.*

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

(a) *Reset date; not a maturity date.*

(b) *Collateralized by $24,644,933 Federal National Mortgage Association, with various coupon rates from 5.0–6.0%, with various maturity dates of 6/1/2018–10/1/2038, with a value of $25,500,681.*

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.

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities
Level 1	$ —
Level 2	398,111,737
Level 3	—
Total	**$ 398,111,737**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investment in securities, valued at amortized cost	$ 398,111,737
Cash	176,048
Interest receivable	481,504
Receivable for Portfolio shares sold	169,537
Due from Advisor	127
Other assets	65,592
Total assets	399,004,545

Liabilities	
Payable for Portfolio shares redeemed	643,663
Distributions payable	293,151
Accrued management fee	25,489
Other accrued expenses and payables	251,247
Total liabilities	1,213,550
Net assets, at value	**$ 397,790,995**

Net Assets Consist of	
Distributions in excess of net investment income	(130,622)
Paid-in capital	397,921,617
Net assets, at value	**$ 397,790,995**
Class A	
Net Asset Value, offering and redemption price per share ($397,749,879 ÷ 397,868,262 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 ($41,116 ÷ 41,037 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 1.00**

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Interest	$ 11,982,120
Expenses:	
Management fee	1,247,502
Administration fee	263,770
Services to shareholders	763
Custodian fee	39,912
Distribution service fee (Class B)	10,318
Professional fees	76,177
Record keeping fees (Class B)	4,081
Trustees' fee and expenses	37,309
Reports to shareholders and shareholder meeting	326,625
Other	56,419
Total expenses, before expense reductions	2,062,876
Expense reductions	(95,999)
Total expenses, after expense reductions	1,966,877
Net investment income	**10,015,243**
Net realized gain (loss)	**109,674**
Net increase (decrease) in net assets resulting from operations	**$ 10,124,917**

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, 2008	2007
Operations:		
Net investment income	$ 10,015,243	$ 17,547,804
Net realized gain (loss)	109,674	15,068
Net increase (decrease) in net assets resulting from operations	10,124,917	17,562,872
Distributions to shareholders from:		
Net investment income:		
Class A	(10,103,886)	(15,932,890)
Class B	(127,775)	(1,617,257)
Total distributions	$ (10,231,661)	$ (17,550,147)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	264,441,713	266,620,495
Reinvestment of distributions	10,438,782	15,863,609
Cost of shares redeemed	(232,250,984)	(221,020,237)
Net increase (decrease) in net assets from Class A share transactions	42,629,511	61,463,867
Class B		
Proceeds from shares sold	4,026,431	36,113,440
Reinvestment of distributions	158,921	1,612,484
Cost of shares redeemed	(28,403,441)	(71,843,157)
Net increase (decrease) in net assets from Class B share transactions	(24,218,089)	(34,117,233)
Increase (decrease) in net assets	18,304,678	27,359,359
Net assets at beginning of period	379,486,317	352,126,958
Net assets at end of period (including distributions in excess of net investment income of $130,622 and $23,878, respectively)	**$ 397,790,995**	**$ 379,486,317**

Other Information		
Class A		
Shares outstanding at beginning of period	355,238,751	293,774,884
Shares sold	264,441,713	266,620,495
Shares issued to shareholders in reinvestment of distributions	10,438,782	15,863,609
Shares redeemed	(232,250,984)	(221,020,237)
Net increase (decrease) in Class A shares	42,629,511	61,463,867
Shares outstanding at end of period	**397,868,262**	**355,238,751**
Class B		
Shares outstanding at beginning of period	24,259,126	58,376,359
Shares sold	4,026,431	36,113,440
Shares issued to shareholders in reinvestment of distributions	158,921	1,612,484
Shares redeemed	(28,403,441)	(71,843,157)
Net increase (decrease) in Class B shares	(24,218,089)	(34,117,233)
Shares outstanding at end of period	**41,037**	**24,259,126**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
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	.026	.049	.046	.028	.009
Total from investment operations	.026	.049	.046	.028	.009
Less distributions from:					
Net investment income	(.026)	(.049)	(.046)	(.028)	(.009)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	2.64[a]	5.00[a]	4.65[a]	2.80	.91
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	398	355	294	235	241
Ratio of expenses before expense reductions (%)	.52	.46	.52	.52	.53
Ratio of expenses after expense reductions (%)	.50	.45	.51	.52	.53
Ratio of net investment income (%)	2.56	4.88	4.58	2.77	.88

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

Class B

Years Ended December 31,	2008	2007	2006	2005	2004
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	.023	.046	.042	.024	.005
Total from investment operations	.023	.046	.042	.024	.005
Less distributions from:					
Net investment income	(.023)	(.046)	(.042)	(.024)	(.005)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	2.34[a]	4.65[a]	4.25[a]	2.42	.52
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.04	24	58	58	53
Ratio of expenses before expense reductions (%)	.93	.82	.90	.89	.91
Ratio of expenses after expense reductions (%)	.88	.80	.89	.89	.91
Ratio of net investment income (%)	2.17	4.53	4.20	2.40	.50

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

Performance Summary

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.

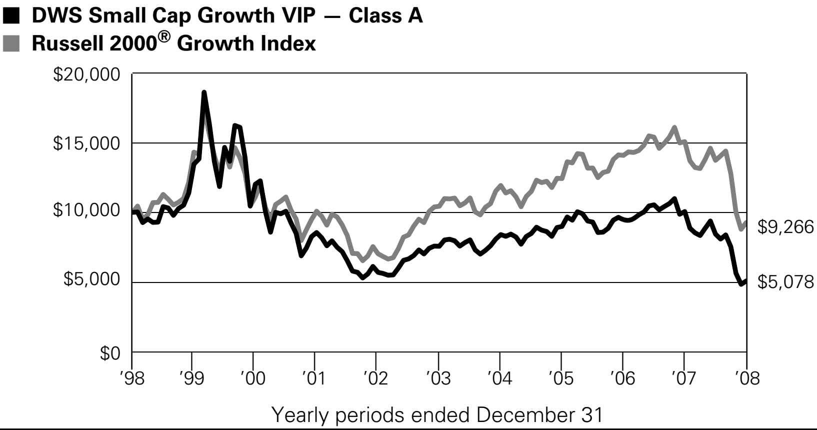
The total annual Portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.75% and 1.00% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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.

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 Small Cap Growth VIP



The Russell 2000® Growth Index is an unmanaged, capitalization-weighted measure of 2,000 of the smallest capitalized US companies with a greater-than-average growth orientation and whose common stocks trade on the NYSE, NYSE Alternext US (formerly known as the American Stock Exchange (AMEX)) and Nasdaq.

Index returns assume reinvestment of dividends and, unlike portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Comparative Results

DWS Small Cap Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$5,050	$5,645	$6,711	$5,078
	Average annual total return	–49.50%	–17.35%	–7.67%	–6.55%
Russell 2000 Growth Index	Growth of $10,000	$6,146	$7,457	$8,878	$9,266
	Average annual total return	–38.54%	–9.32%	–2.35%	–.76%

DWS Small Cap Growth VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$5,098	$5,653	$6,670	$8,019
	Average annual total return	–49.09%	–17.31%	–7.78%	–3.34%
Russell 2000 Growth Index	Growth of $10,000	$6,146	$7,457	$8,878	$11,127
	Average annual total return	–38.54%	–9.32%	–2.35%	1.66%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 602.10	$ 614.70
Expenses Paid per $1,000*	$ 3.58	$ 5.07
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,020.66	$1,018.85
Expenses Paid per $1,000*	$ 4.52	$ 6.34

* *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 366.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Small Cap Growth VIP	.89%	1.25%

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

The past year has proven to be the most difficult period for global financial markets since the 1930s, with virtually all market indices posting decisively negative results. The bursting of the US housing market bubble set in motion a chain of events that culminated late last summer in the near paralysis of the global financial system. This led to a widening in credit spreads and a complete seize-up of credit-related activity.[1] As the crisis grew, and market volatility hit an all-time high, the federal government intervened to prevent the failure of once venerable institutions such as AIG, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). The growing inability of businesses and consumers to access credit led to a sharp contraction in global economic activity by the fourth quarter. Central banks around the world cut key interest rates in an effort to jump-start economic activity. Determined not to repeat the policy errors that led to the Great Depression, the US Federal Reserve Board (the Fed) gradually lowered its target for short-term interest rates to a range between 0% and 0.25%, and has aggressively used its balance sheet to provide credit market liquidity. President-elect Obama has called the revival of the economy his first priority, and the new administration intends to implement a huge fiscal stimulus plan that could reach $1 trillion.

For the 12-month period ended December 31, 2008, the Portfolio returned –49.50% (Class A shares, unadjusted for contract charges) compared with the –38.54% return of the Russell 2000® Growth Index.

Positive contributors to performance over the 12-month period included an overweight position in consumer staples, and underweights to telecom services, utilities and materials.[2] Stock selection was positive within the consumer staples sector, and contributions to performance from the sector came from Green Mountain Coffee Roasters, Inc. and Pantry, Inc. Detractors from performance included unfavorable stock selection in health care, financials and energy. Individual detractors from returns included positions in the energy company Tesco Corp. and from financials, E*TRADE Financial Corp. Overweight positions in consumer discretionary and information technology also subtracted from returns, as did an underweight to health care. We continue to maintain a long-term perspective, investing in quality small-cap growth stocks.

Joseph Axtell, CFA Rafaelina M. Lee Jeffrey Saeger, CFA
Portfolio Managers, Deutsche Investment Management Americas Inc.

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 *Credit spread is the additional yield provided by non-Treasury fixed-income securities versus Treasury securities.*

2 *"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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Small Cap Growth VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	94%	98%
Cash Equivalents	6%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Information Technology	33%	29%
Health Care	18%	13%
Consumer Discretionary	16%	20%
Industrials	11%	15%
Financials	9%	8%
Energy	8%	11%
Consumer Staples	5%	2%
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 163. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 Small Cap Growth VIP

	Shares	Value ($)
Common Stocks 95.0%		
Consumer Discretionary 15.4%		
Diversified Consumer Services 1.4%		
Capella Education Co.*	17,000	**998,920**
Hotels Restaurants & Leisure 4.3%		
Buffalo Wild Wings, Inc.* (a)	115,200	**2,954,880**
Specialty Retail 9.7%		
bebe stores, inc.	207,600	1,550,772
Children's Place Retail Stores, Inc.* (a)	70,700	1,532,776
Citi Trends, Inc.*	53,600	788,992
Guess?, Inc.	142,300	2,184,305
Zumiez, Inc.* (a)	90,000	670,500
		6,727,345
Consumer Staples 5.0%		
Food & Staples Retailing 2.2%		
Casey's General Stores, Inc.	30,000	683,100
Pantry, Inc.*	37,700	808,665
		1,491,765
Food Products 1.1%		
Green Mountain Coffee Roasters, Inc.* (a)	18,000	696,600
Zhongpin, Inc.*	4,800	57,600
		754,200
Personal Products 1.7%		
Chattem, Inc.*	9,900	708,147
NBTY, Inc.*	31,000	485,150
		1,193,297
Energy 8.1%		
Energy Equipment & Services 2.4%		
CARBO Ceramics, Inc.	17,800	632,434
Dril-Quip, Inc.*	40,900	838,859
T-3 Energy Services, Inc.*	19,000	179,360
		1,650,653
Oil, Gas & Consumable Fuels 5.7%		
Arena Resources, Inc.*	28,700	806,183
BPZ Resources, Inc.* (a)	169,200	1,082,880
Carrizo Oil & Gas, Inc.* (a)	59,800	962,780
EXCO Resources, Inc.*	48,500	439,410
Goodrich Petroleum Corp.*	22,400	670,880
		3,962,133
Financials 8.1%		
Capital Markets 2.2%		
Riskmetrics Group, Inc.*	60,200	896,378
Waddell & Reed Financial, Inc. "A"	39,500	610,670
		1,507,048
Commercial Banks 1.0%		
PrivateBancorp., Inc.	22,200	**720,612**
Diversified Financial Services 2.5%		
Portfolio Recovery Associates, Inc.* (a)	52,120	**1,763,741**
Insurance 2.4%		
eHealth, Inc.*	124,300	**1,650,704**
Health Care 17.0%		
Biotechnology 2.8%		
Alexion Pharmaceuticals, Inc.*	18,500	669,515
Celera Corp.*	15,200	169,176
Regeneron Pharmaceuticals, Inc.*	20,700	380,052
United Therapeutics Corp.*	11,900	744,345
		1,963,088
Health Care Equipment & Supplies 2.0%		
Masimo Corp.*	12,900	384,807
NuVasive, Inc.*	19,100	661,815
Thoratec Corp.*	11,100	360,639
		1,407,261
Health Care Providers & Services 11.5%		
AMERIGROUP Corp.*	39,000	1,151,280
Centene Corp.*	60,400	1,190,484
Genoptix, Inc.*	44,600	1,519,968
Gentiva Health Services, Inc.*	55,400	1,621,004
Pediatrix Medical Group, Inc.*	29,500	935,150
Psychiatric Solutions, Inc.* (a)	56,500	1,573,525
		7,991,411
Life Sciences Tools & Services 0.7%		
ICON PLC (ADR)*	23,600	**464,684**
Industrials 10.1%		
Aerospace & Defense 2.8%		
BE Aerospace, Inc.*	122,800	944,332
Curtiss-Wright Corp.	29,800	995,022
		1,939,354
Commercial Services & Supplies 1.5%		
Team, Inc.*	37,300	**1,033,210**
Electrical Equipment 1.0%		
Baldor Electric Co.	39,600	**706,860**
Machinery 0.9%		
Astec Industries, Inc.*	20,700	**648,531**
Professional Services 3.0%		
Huron Consulting Group, Inc.*	25,100	1,437,477
Korn/Ferry International*	55,100	629,242
		2,066,719
Road & Rail 0.9%		
Old Dominion Freight Line, Inc.*	22,200	**631,812**
Information Technology 31.3%		
Communications Equipment 1.1%		
Ciena Corp.*	112,400	**753,080**
Electronic Equipment, Instruments & Components 4.0%		
Itron, Inc.* (a)	43,200	**2,753,568**
Internet Software & Services 5.7%		
Bankrate, Inc.* (a)	38,900	1,478,200
LoopNet, Inc.* (a)	235,200	1,604,064
Omniture, Inc.*	80,300	854,392
		3,936,656

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

	Shares	Value ($)
IT Services 6.0%		
CyberSource Corp.* (a)	200,500	2,403,995
Forrester Research, Inc.*	62,900	1,774,409
		4,178,404
Semiconductors & Semiconductor Equipment 7.2%		
Atheros Communications*	92,100	1,317,951
Cavium Networks, Inc.* (a)	77,100	810,321
Microsemi Corp.*	47,400	599,136
Netlogic Microsystems, Inc.*	56,000	1,232,560
Tessera Technologies, Inc.*	90,600	1,076,328
		5,036,296
Software 7.3%		
Blackboard, Inc.*	67,300	1,765,279
Concur Technologies, Inc.* (a)	33,100	1,086,342
FalconStor Software, Inc.* (a)	190,300	529,034
Fundtech Ltd.*	93,585	649,480
Informatica Corp.*	32,000	439,360
Ultimate Software Group, Inc.* (a)	43,100	629,260
		5,098,755
Total Common Stocks (Cost $91,009,942)		**65,984,987**

	Shares	Value ($)
Securities Lending Collateral 21.6%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $14,998,940)	14,998,940	**14,998,940**
Cash Equivalents 6.5%		
Cash Management QP Trust, 1.42% (b) (Cost $4,508,380)	4,508,380	**4,508,380**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $110,517,262)†	123.1	**85,492,307**
Other Assets and Liabilities, Net (a)	(23.1)	**(16,062,595)**
Net Assets	100.0	**69,429,712**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $110,551,428. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $25,059,121. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,803,766 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $29,862,887.*

(a) *All or a portion of these securities were on loan amounting to $14,779,614. In addition, included in other assets and liabilities, net is a pending sale, amounting to $147,346 that is also on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2008 amounted to $14,926,960, which is 21.5% 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.*

ADR: American Depositary Receipt

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**
Level 1	$ 80,983,927
Level 2	4,508,380
Level 3	—
Total	**$ 85,492,307**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $91,009,942) — including $14,779,614 of securities loaned	$	65,984,987
Investment in Daily Assets Fund Institutional (cost $14,998,940)*		14,998,940
Investment in Cash Management QP Trust (cost $4,508,380)		4,508,380
Total investments, at value (cost $110,517,262)		85,492,307
Receivable for investments sold		207,998
Cash		25,618
Dividends receivable		11,171
Interest receivable		35,960
Receivable for Portfolio shares sold		142,705
Other assets		4,009
Total assets		85,919,768
Liabilities		
Payable for Portfolio shares redeemed		50,296
Payable upon return of securities loaned		14,998,940
Payable for investments purchased		1,243,640
Accrued management fee		31,186
Other accrued expenses and payables		165,994
Total liabilities		16,490,056
Net assets, at value	**$**	**69,429,712**
Net Assets Consist of		
Accumulated net investment loss		(16,609)
Net unrealized appreciation (depreciation) on investments		(25,024,955)
Accumulated net realized gain (loss)		(110,019,530)
Paid-in capital		204,490,806
Net assets, at value	**$**	**69,429,712**
Class A		
Net Asset Value, offering and redemption price per share ($69,415,664 ÷ 9,122,504 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.61**
Class B		
Net Asset Value, offering and redemption price per share ($14,048 ÷ 1,867 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.52**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends	$	287,746
Interest — Cash Management QP Trust		71,575
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		645,012
Total Income		1,004,333
Expenses:		
Management fee		733,616
Administration fee		74,373
Services to shareholders		316
Custodian fee		13,605
Distribution service fee (Class B)		4,740
Record keeping fees (Class B)		2,687
Legal fees		15,482
Audit and tax fees		63,831
Trustees' fees and expenses		20,529
Reports to shareholders and shareholder meeting		171,117
Other		5,375
Total expenses before expense reductions		1,105,671
Expense reductions		(37,746)
Total expenses after expense reductions		1,067,925
Net investment income (loss)		**(63,592)**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		(22,641,797)
Change in net unrealized appreciation (depreciation) on investments		(56,010,791)
Net gain (loss)		**(78,652,588)**
Net increase (decrease) in net assets resulting from operations	**$**	**(78,716,180)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ (63,592)	$ (266,680)
Net realized gain (loss)	(22,641,797)	29,911,986
Change in net unrealized appreciation (depreciation)	(56,010,791)	(13,909,833)
Net increase (decrease) in net assets resulting from operations	(78,716,180)	15,735,473
Portfolio share transactions:		
Class A		
Proceeds from shares sold	5,995,281	7,088,648
Cost of shares redeemed	(32,499,758)	(54,833,999)
Net increase (decrease) in net assets from Class A share transactions	(26,504,477)	(47,745,351)
Class B		
Proceeds from shares sold	210,787	890,860
Cost of shares redeemed	(6,249,807)	(33,397,002)
Net increase (decrease) in net assets from Class B share transactions	(6,039,020)	(32,506,142)
Increase (decrease) in net assets	(111,259,677)	(64,516,020)
Net assets at beginning of period	180,689,389	245,205,409
Net assets at end of period (including accumulated net investment loss of $16,609 and $16,875, respectively)	**$ 69,429,712**	**$ 180,689,389**

Other Information		
Class A		
Shares outstanding at beginning of period	11,529,906	14,686,087
Shares sold	539,106	469,331
Shares redeemed	(2,946,508)	(3,625,512)
Net increase (decrease) in Class A shares	(2,407,402)	(3,156,181)
Shares outstanding at end of period	**9,122,504**	**11,529,906**
Class B		
Shares outstanding at beginning of period	468,018	2,636,495
Shares sold	16,827	59,404
Shares redeemed	(482,978)	(2,227,881)
Net increase (decrease) in Class B shares	(466,151)	(2,168,477)
Shares outstanding at end of period	**1,867**	**468,018**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$15.07**	**$14.19**	**$13.48**	**$12.59**	**$11.34**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.01)	(.01)	(.04)[d]	(.06)	(.05)
Net realized and unrealized gain (loss)	(7.45)	.89	.75	.95	1.30
Total from investment operations	(7.46)	.88	.71	.89	1.25
Net asset value, end of period	**$ 7.61**	**$15.07**	**$14.19**	**$13.48**	**$12.59**
Total Return (%)	(49.50)[b]	6.20[b]	5.27[b,d]	7.07[c]	11.02
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	69	174	208	243	210
Ratio of expenses before expense reductions (%)	.88	.75	.73	.72	.71
Ratio of expenses after expense reductions (%)	.85	.72	.72	.72	.71
Ratio of net investment income (loss) (%)	(.04)	(.09)	(.32)[d]	(.47)	(.47)
Portfolio turnover rate (%)	67	67	73	94	117

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 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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$14.77**	**$13.96**	**$13.32**	**$12.48**	**$11.29**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.07)	(.07)	(.09)[d]	(.11)	(.10)
Net realized and unrealized gain (loss)	(7.18)	.88	.73	.95	1.29
Total from investment operations	(7.25)	.81	.64	.84	1.19
Net asset value, end of period	**$ 7.52**	**$14.77**	**$13.96**	**$13.32**	**$12.48**
Total Return (%)[b]	(49.09)	5.80	4.80[d]	6.73[c]	10.54
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.01	7	37	39	28
Ratio of expenses before expense reductions (%)	1.39	1.13	1.12	1.12	1.10
Ratio of expenses after expense reductions (%)	1.29	1.09	1.09	1.09	1.09
Ratio of net investment income (loss) (%)	(.48)	(.46)	(.69)[d]	(.84)	(.85)
Portfolio turnover rate (%)	67	67	73	94	117

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 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.*

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.

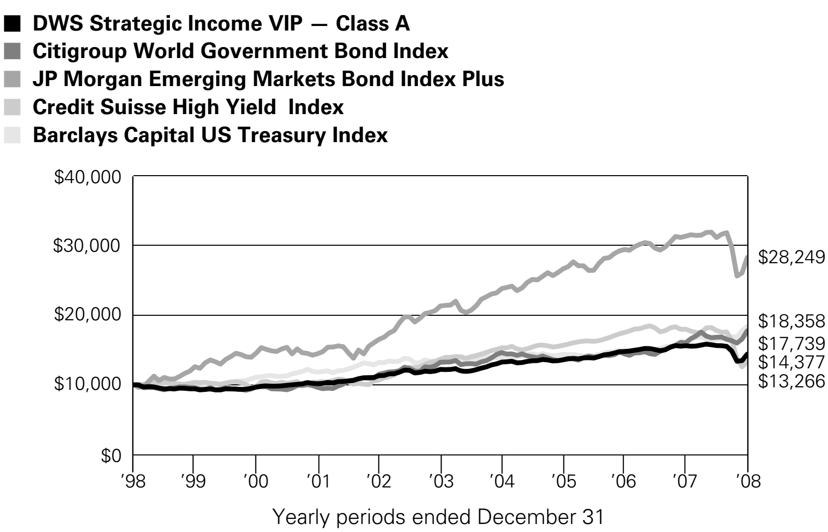
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.89% and 1.14% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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. The Portfolio invests in derivatives seeking to hedge positions in certain securities and to generate income in order to enhance the Portfolio's returns. Derivatives can be more volatile and less liquid than traditional fixed-income securities. Finally, investing in foreign securities presents certain risks, 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 Index Plus 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 Credit Suisse High Yield Index is an unmanaged, trader-priced portfolio constructed to mirror the global high-yield debt market. The Barclays Capital US Treasury Index (name changed from Lehman Brothers US Treasury Index, effective November 3, 2008) 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	$9,225	$10,600	$11,786	$14,377
	Average annual total return	–7.75%	1.96%	3.34%	3.70%
Citigroup World Government Bond Index	Growth of $10,000	$11,089	$13,056	$13,416	$17,739
	Average annual total return	10.89%	9.30%	6.05%	5.90%
JP Morgan Emerging Markets Bond Index Plus	Growth of $10,000	$9,030	$10,620	$13,278	$28,249
	Average annual total return	–9.70%	2.03%	5.83%	10.94%
Credit Suisse High Yield Index	Growth of $10,000	$7,383	$8,481	$9,710	$13,266
	Average annual total return	–26.17%	–5.34%	–.59%	2.87%
Barclays Capital US Treasury Index	Growth of $10,000	$11,374	$12,781	$13,602	$18,358
	Average annual total return	13.74%	8.52%	6.35%	6.26%

The growth of $10,000 is cumulative.

Comparative Results

DWS Strategic Income VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$9,200	$10,512	$11,600	$11,945
	Average annual total return	–8.00%	1.68%	3.01%	3.18%
Citigroup World Government Bond Index	Growth of $10,000	$11,089	$13,056	$13,416	$14,775
	Average annual total return	10.89%	9.30%	6.05%	7.13%
JP Morgan Emerging Markets Bond Index Plus	Growth of $10,000	$9,030	$10,620	$13,278	$14,965
	Average annual total return	–9.70%	2.03%	5.83%	7.37%
Credit Suisse High Yield Index	Growth of $10,000	$7,383	$8,481	$9,710	$11,056
	Average annual total return	–26.17%	–5.34%	–.59%	1.78%
Barclays Capital US Treasury Index	Growth of $10,000	$11,374	$12,781	$13,602	$13,707
	Average annual total return	13.74%	8.52%	6.35%	5.72%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 920.90	$ 932.60
Expenses Paid per $1,000*	$ 4.15	$ 5.49
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,020.81	$1,019.46
Expenses Paid per $1,000*	$ 4.37	$ 5.74

* *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 366.*

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Strategic Income VIP	.86%	1.13%

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

While the rapid swings and overall decline in stock prices garnered most of the headlines during the past 12 months, the bond market also had its share of volatility. The cause of this volatility was the ongoing fallout from the housing and credit crises, which led to the outright failure or forced mergers of numerous financial institutions in both the United States and Europe. The resulting credit crunch led to a slowdown in global economic growth, which accelerated late in the period. In this environment, investors' risk appetites evaporated and liquidity all but disappeared. This led to a frantic "flight to quality" into the safe haven of US Treasuries and underperformance for virtually all other segments of the bond market. Lower-quality issues — most notably corporate bonds with the lowest credit ratings — underperformed the broader bond market by a wide margin. The situation was largely the same overseas, where the best performance was generated by the government bond markets of the developed economies.

The Portfolio posted a –7.75% return for the period ending December 31, 2008 (Class A shares, unadjusted for contract charges). This compares with the Portfolio benchmarks' returns of –9.70% for the JPMorgan Emerging Markets Bond Index Plus, –26.17% for the Credit Suisse High Yield Index, 13.74% for the Barclays Capital US Treasury Index and 10.89% for the Citigroup World Government Bond Index.

In the past, the Portfolio's broad exposure to a wide range of fixed-income asset classes has been one of the most important factors in its strong long-term track record. During the past year, however, the severe underperformance of the non-government segments of the bond market made such diversification a liability. During the year, we maintained significant exposure to both high-yield and emerging-markets bonds. This positioning had a negative impact on the Portfolio's relative return for the period, as both asset classes were down sharply. On the positive side, the Portfolio's relatively long overall duration during the year aided performance in a declining interest rate environment.[1] Over the second half of the year, we began shifting the Portfolio to a higher-quality profile in view of the continued weak outlook for the global economy, trimming our exposure to high-yield and emerging-markets bonds. In addition, we have been seeking to increase exposure to the Eurozone, UK and Canada, where central banks have more room to lower rates than in the US.

In addition to the main investment strategy, we employ a global tactical asset allocation strategy. This strategy, which the Advisor calls iGAP (integrated Global Alpha Platform) detracted from the Portfolio's return.

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Portfolio Managers, Deutsche Investment Management Americas Inc.

The JPMorgan Emerging Markets Bond Index Plus 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.

Credit Suisse High Yield Index is an unmanaged, trader-priced portfolio constructed to mirror the global high-yield debt market.

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1 *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, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Strategic Income VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Government & Agency Obligations	42%	44%
Corporate Bonds	42%	34%
Cash Equivalents	6%	13%
Mortgage-Backed Securities Pass-Throughs	3%	—
Commercial and Non-Agency Mortgage-Backed Securities	2%	5%
Loan Participations and Assignments	2%	3%
Municipal Bonds and Notes	1%	—
Collateralized Mortgage Obligations	1%	—
Asset Backed	1%	1%
	100%	100%

Quality (Excludes Securities Lending Collateral)	**12/31/08**	**12/31/07**
Cash Equivalents	5%	15%
AAA	31%	17%
AA	1%	1%
A	15%	5%
BBB	8%	7%
BB	15%	20%
B	15%	16%
CCC	3%	4%
Below CCC	1%	—
Not Rated	6%	15%
	100%	100%

Effective Maturity (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/08**	**12/31/07**
Under 1 year	—	—
1–4.99 years	46%	52%
5–9.99 years	35%	33%
10–14.99 years	6%	2%
15 years or greater	13%	13%
	100%	100%

Interest Rate Sensitivity	**12/31/08**	**12/31/07**
Effective maturity	7.4 years	6.6 years
Average duration	5.1 years	3.5 years

Asset allocation, quality, effective maturity 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 173. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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.

		Principal Amount ($)(a)	Value ($)
Corporate Bonds 41.5%			
Consumer Discretionary 3.9%			
AMC Entertainment, Inc., 8.0%, 3/1/2014		105,000	64,575
American Achievement Corp., 144A, 8.25%, 4/1/2012		30,000	23,100
American Achievement Group Holding Corp., 16.75%, 10/1/2012 (PIK)		54,911	13,179
Asbury Automotive Group, Inc.:			
7.625%, 3/15/2017		65,000	30,225
8.0%, 3/15/2014		30,000	14,250
Ashtead Holdings PLC, 144A, 8.625%, 8/1/2015		120,000	63,000
Cablevision Systems Corp., Series B, 8.334%***, 4/1/2009		25,000	24,937
CanWest MediaWorks LP, 144A, 9.25%, 8/1/2015		50,000	19,000
Carrols Corp., 9.0%, 1/15/2013		30,000	20,250
Charter Communications Operating LLC, 144A, 10.875%, 9/15/2014		160,000	128,000
Cox Communications, Inc., 144A, 9.375%, 1/15/2019		400,000	418,520
CSC Holdings, Inc.:			
6.75%, 4/15/2012 (b)		50,000	45,750
Series B, 7.625%, 4/1/2011 (b)		55,000	51,837
Series B, 8.125%, 7/15/2009		55,000	54,725
Series B, 8.125%, 8/15/2009		110,000	109,450
Denny's Holdings, Inc., 10.0%, 10/1/2012		20,000	13,850
DIRECTV Holdings LLC, 7.625%, 5/15/2016 (b)		145,000	140,650
Dollarama Group LP, 8.073%***, 8/15/2012 (c)		52,000	33,020
EchoStar DBS Corp.:			
6.375%, 10/1/2011		100,000	93,000
6.625%, 10/1/2014		65,000	54,275
7.125%, 2/1/2016 (b)		80,000	66,800
Fontainebleau Las Vegas Holdings LLC, 144A, 10.25%, 6/15/2015		65,000	6,338
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015		55,000	37,400
Group 1 Automotive, Inc., 8.25%, 8/15/2013		30,000	20,100
Hertz Corp., 8.875%, 1/1/2014 (b)		115,000	70,725
Idearc, Inc., 8.0%, 11/15/2016		125,000	9,375
Indianapolis Downs LLC, 144A, 11.0%, 11/1/2012		40,000	21,800
Isle of Capri Casinos, Inc., 7.0%, 3/1/2014		70,000	29,750
Kabel Deutschland GmbH, 10.625%, 7/1/2014		150,000	133,500
Lamar Media Corp., Series C, 6.625%, 8/15/2015 (b)		40,000	28,900
Liberty Media LLC, 5.7%, 5/15/2013		10,000	6,556
MediMedia USA, Inc., 144A, 11.375%, 11/15/2014		30,000	18,000
MGM MIRAGE:			
6.625%, 7/15/2015 (b)		65,000	39,650
8.375%, 2/1/2011		65,000	38,675
MTR Gaming Group, Inc., Series B, 9.75%, 4/1/2010		85,000	63,750
Norcraft Holdings LP, 9.75%, 9/1/2012		155,000	115,475
Penske Automotive Group, Inc., 7.75%, 12/15/2016		125,000	58,125
Pinnacle Entertainment, Inc., 8.75%, 10/1/2013		40,000	31,600
Quebecor Media, Inc., 7.75%, 3/15/2016		40,000	27,000
Quebecor World, Inc., 144A, 9.75%, 1/15/2015**		45,000	3,544
Reader's Digest Association, Inc., 9.0%, 2/15/2017		50,000	4,313
Sabre Holdings Corp., 8.35%, 3/15/2016		50,000	11,125
Seminole Hard Rock Entertainment, Inc., 144A, 4.496%***, 3/15/2014		65,000	32,987
Shingle Springs Tribal Gaming Authority, 144A, 9.375%, 6/15/2015		50,000	25,000
Simmons Co., Step-up Coupon, 0% to 12/15/2009, 10.0% to 12/15/2014		185,000	21,275
Sinclair Television Group, Inc., 8.0%, 3/15/2012 (b)		49,000	36,872
Sirius XM Radio, Inc., 9.625%, 8/1/2013		120,000	22,350
Sonic Automotive, Inc., Series B, 8.625%, 8/15/2013		55,000	20,488
Travelport LLC:			
6.828%***, 9/1/2014		45,000	13,275
9.875%, 9/1/2014		10,000	3,750
Trump Entertainment Resorts, Inc., 8.5%, 6/1/2015		15,000	1,988
United Components, Inc., 9.375%, 6/15/2013		10,000	4,200
Unity Media GmbH, 144A, 8.75%, 2/15/2015	EUR	150,000	163,678
UPC Holding BV:			
144A, 7.75%, 1/15/2014	EUR	100,000	106,339
144A, 8.0%, 11/1/2016	EUR	50,000	48,304
Vertis, Inc., 13.5%, 4/1/2014 (PIK)		18,857	4,399
Vitro SAB de CV, 9.125%, 2/1/2017		220,000	66,000
Young Broadcasting, Inc., 8.75%, 1/15/2014		275,000	2,750
			2,831,749
Consumer Staples 1.4%			
Alliance One International, Inc., 8.5%, 5/15/2012		20,000	14,700
Altria Group, Inc.:			
8.5%, 11/10/2013		45,000	46,609
9.7%, 11/10/2018		25,000	27,021
Delhaize America, Inc.:			
8.05%, 4/15/2027		20,000	18,508
9.0%, 4/15/2031		132,000	133,494
General Nutrition Centers, Inc., 7.584%***, 3/15/2014 (PIK)		40,000	22,400
North Atlantic Trading Co., 144A, 10.0%, 3/1/2012		223,000	122,650
Reynolds American, Inc., 6.75%, 6/15/2017		600,000	476,272

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

	Principal Amount ($)(a)	Value ($)
Smithfield Foods, Inc., 7.75%, 7/1/2017	20,000	11,400
Viskase Companies, Inc., 11.5%, 6/15/2011	225,000	146,250
		1,019,304
Energy 4.4%		
Atlas Energy Resources LLC, 144A, 10.75%, 2/1/2018	115,000	70,150
Belden & Blake Corp., 8.75%, 7/15/2012	310,000	212,350
Bristow Group, Inc., 7.5%, 9/15/2017	70,000	46,900
Chaparral Energy, Inc., 8.5%, 12/1/2015	110,000	22,000
Chesapeake Energy Corp.:		
6.25%, 1/15/2018	75,000	55,500
6.875%, 1/15/2016	170,000	136,000
7.25%, 12/15/2018 (b)	110,000	85,800
7.5%, 6/15/2014	25,000	21,125
Cimarex Energy Co., 7.125%, 5/1/2017	45,000	35,100
Colorado Interstate Gas Co., 6.8%, 11/15/2015	30,000	25,845
Delta Petroleum Corp., 7.0%, 4/1/2015	100,000	20,000
Dynegy Holdings, Inc., 6.875%, 4/1/2011 (b)	15,000	13,125
El Paso Corp.:		
7.25%, 6/1/2018 (b)	140,000	111,114
9.625%, 5/15/2012	50,000	42,455
EXCO Resources, Inc., 7.25%, 1/15/2011	95,000	74,100
Forest Oil Corp., 144A, 7.25%, 6/15/2019	35,000	25,550
Frontier Oil Corp.:		
6.625%, 10/1/2011	40,000	36,200
8.5%, 9/15/2016	80,000	70,600
GAZ Capital (Gazprom), 144A, 6.51%, 3/7/2022	130,000	77,350
GulfSouth Pipeline Co., LP, 144A, 5.75%, 8/15/2012	15,000	13,410
KCS Energy, Inc., 7.125%, 4/1/2012	240,000	180,000
Kinder Morgan Energy Partners LP, 9.0%, 2/1/2019	155,000	161,717
Mariner Energy, Inc.:		
7.5%, 4/15/2013	60,000	38,400
8.0%, 5/15/2017	95,000	49,400
Newfield Exploration Co., 7.125%, 5/15/2018	90,000	71,100
OPTI Canada, Inc.:		
7.875%, 12/15/2014	90,000	45,900
8.25%, 12/15/2014 (b)	160,000	86,400
Pemex Project Funding Master Trust, 144A, 5.75%, 3/1/2018	460,000	405,950
Petrohawk Energy Corp.:		
144A, 7.875%, 6/1/2015	30,000	22,200
9.125%, 7/15/2013	65,000	52,650
Plains Exploration & Production Co.:		
7.0%, 3/15/2017	60,000	41,100
7.625%, 6/1/2018	110,000	75,350
Quicksilver Resources, Inc., 7.125%, 4/1/2016	170,000	90,950
Range Resources Corp., 7.25%, 5/1/2018	10,000	8,350

		Principal Amount ($)(a)	Value ($)
SandRidge Energy, Inc., 144A, 8.0%, 6/1/2018		45,000	24,975
Southwestern Energy Co., 144A, 7.5%, 2/1/2018		85,000	74,375
Stone Energy Corp.:			
6.75%, 12/15/2014		105,000	51,450
8.25%, 12/15/2011		160,000	99,200
Tennessee Gas Pipeline Co., 7.625%, 4/1/2037		25,000	19,843
Tesoro Corp., 6.5%, 6/1/2017		60,000	32,925
Whiting Petroleum Corp.:			
7.25%, 5/1/2012		125,000	93,125
7.25%, 5/1/2013		20,000	14,200
Williams Companies, Inc.:			
8.125%, 3/15/2012		180,000	165,825
8.75%, 3/15/2032		115,000	85,675
Williams Partners LP, 7.25%, 2/1/2017		45,000	35,550
			3,221,284
Financials 14.7%			
Algoma Acquisition Corp., 144A, 9.875%, 6/15/2015		125,000	47,500
Ashton Woods USA LLC, 9.5%, 10/1/2015**		145,000	29,000
Buffalo Thunder Development Authority, 144A, 9.375%, 12/15/2014		30,000	6,000
CIT Group, Inc., 5.4%, 2/13/2012		400,000	322,723
Citigroup, Inc., 6.5%, 8/19/2013		70,000	70,636
Commonwealth Bank of Australia, 8.7%***, 7/21/2016		1,000,000	987,190
Conproca SA de CV, REG S, 12.0%, 6/16/2010		207,300	210,928
Depfa ACS Bank, 144A, 9.5%***, 10/6/2023		1,000,000	920,000
Ford Motor Credit Co., LLC:			
7.25%, 10/25/2011		125,000	91,314
7.875%, 6/15/2010		140,000	112,025
GMAC LLC, 144A, 6.875%, 9/15/2011		297,000	212,227
Hawker Beechcraft Acquisition Co., LLC:			
8.5%, 4/1/2015		145,000	59,450
8.875%, 4/1/2015 (PIK)		100,000	34,000
Hexion US Finance Corp., 9.75%, 11/15/2014		35,000	9,975
Inmarsat Finance PLC, 10.375%, 11/15/2012		135,000	119,644
iPayment, Inc., 9.75%, 5/15/2014		45,000	22,500
Kreditanstalt fuer Wiederaufbau:			
2.05%, 2/16/2026	JPY	300,000,000	3,206,178
5.0%, 7/4/2011	EUR	2,350,000	3,442,905
Local TV Finance LLC, 144A, 9.25%, 6/15/2015 (PIK)		50,000	11,000
New ASAT (Finance) Ltd., 9.25%, 2/1/2011		90,000	9,450
NiSource Finance Corp.:			
6.15%, 3/1/2013		10,000	7,705
7.875%, 11/15/2010		75,000	68,632
Orascom Telecom Finance SCA, 144A, 7.875%, 2/8/2014		100,000	53,000

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

		Principal Amount ($)(a)	Value ($)
Qwest Capital Funding, Inc., 7.0%, 8/3/2009		50,000	49,000
Rainbow National Services LLC, 144A, 10.375%, 9/1/2014		13,000	11,570
Sprint Capital Corp.:			
7.625%, 1/30/2011		50,000	41,750
8.375%, 3/15/2012 (b)		20,000	16,000
Tropicana Entertainment LLC, 9.625%, 12/15/2014**		150,000	1,500
UCI Holdco, Inc., 9.996%***, 12/15/2013 (PIK)		69,429	11,803
Universal City Development Partners, 11.75%, 4/1/2010		235,000	151,575
Wachovia Corp., 3.625%, 2/17/2009		250,000	248,974
Williams Companies, Inc., Credit Linked Certificate Trust, 144A, 6.75%, 4/15/2009		10,000	9,912
Wind Acquisition Finance SA, 144A, 9.75%, 12/1/2015	EUR	100,000	113,289
			10,709,355
Health Care 1.9%			
Advanced Medical Optics, Inc., 7.5%, 5/1/2017		90,000	45,900
Boston Scientific Corp., 6.0%, 6/15/2011		75,000	71,250
Community Health Systems, Inc., 8.875%, 7/15/2015		400,000	368,000
HCA, Inc.:			
9.125%, 11/15/2014 (b)		95,000	88,113
9.25%, 11/15/2016		290,000	266,075
9.625%, 11/15/2016 (PIK)		145,000	113,100
HEALTHSOUTH Corp., 10.75%, 6/15/2016		50,000	45,875
IASIS Healthcare LLC, 8.75%, 6/15/2014		75,000	58,125
Psychiatric Solutions, Inc., 7.75%, 7/15/2015		60,000	44,100
Surgical Care Affiliates, Inc., 144A, 8.875%, 7/15/2015 (PIK)		55,000	33,550
The Cooper Companies, Inc., 7.125%, 2/15/2015		95,000	79,800
Vanguard Health Holding Co. I, LLC, Step-up Coupon, 0% to 10/1/2009, 11.25% to 10/1/2015		75,000	58,875
Vanguard Health Holding Co. II, LLC, 9.0%, 10/1/2014		150,000	125,250
			1,398,013
Industrials 3.6%			
Actuant Corp., 6.875%, 6/15/2017		40,000	30,100
Allied Waste North America, Inc., 6.5%, 11/15/2010		40,000	38,600
ARAMARK Corp., 8.5%, 2/1/2015 (b)		20,000	18,100
Baldor Electric Co., 8.625%, 2/15/2017 (b)		45,000	33,525
BE Aerospace, Inc., 8.5%, 7/1/2018 (b)		105,000	94,500
Belden, Inc., 7.0%, 3/15/2017		45,000	33,750
Bombardier, Inc., 144A, 6.75%, 5/1/2012		100,000	88,750
Browning-Ferris Industries, Inc., 7.4%, 9/15/2035		165,000	136,120
Cenveo Corp., 144A, 10.5%, 8/15/2016		55,000	31,900
Congoleum Corp., 8.625%, 8/1/2008**		125,000	93,750
DRS Technologies, Inc.:			
6.625%, 2/1/2016		135,000	135,000
6.875%, 11/1/2013		195,000	194,025
7.625%, 2/1/2018		165,000	165,000
Esco Corp., 144A, 8.625%, 12/15/2013		95,000	66,500
General Cable Corp.:			
6.258%***, 4/1/2015		55,000	25,713
7.125%, 4/1/2017		55,000	36,300
Great Lakes Dredge & Dock Co., 7.75%, 12/15/2013		50,000	38,562
K. Hovnanian Enterprises, Inc., 8.875%, 4/1/2012		55,000	15,950
Kansas City Southern de Mexico SA de CV:			
7.375%, 6/1/2014		95,000	77,729
7.625%, 12/1/2013		155,000	127,100
9.375%, 5/1/2012		150,000	137,250
Kansas City Southern Railway Co.:			
7.5%, 6/15/2009		45,000	45,112
8.0%, 6/1/2015 (b)		100,000	79,000
Mobile Mini, Inc., 9.75%, 8/1/2014		65,000	46,150
Moog, Inc., 144A, 7.25%, 6/15/2018		20,000	16,000
Navios Maritime Holdings, Inc., 9.5%, 12/15/2014		75,000	41,625
Ply Gem Industries, Inc., 11.75%, 6/15/2013		40,000	21,600
R.H. Donnelley Corp., Series A-4, 8.875%, 10/15/2017		165,000	24,750
RBS Global & Rexnord Corp., 9.5%, 8/1/2014		45,000	33,525
Seitel, Inc., 9.75%, 2/15/2014		35,000	12,600
Titan International, Inc., 8.0%, 1/15/2012		195,000	144,300
TransDigm, Inc., 7.75%, 7/15/2014		30,000	24,600
United Rentals North America, Inc.:			
6.5%, 2/15/2012		125,000	98,750
7.0%, 2/15/2014		175,000	106,750
United Technologies Corp., 6.125%, 2/1/2019		235,000	251,425
US Concrete, Inc., 8.375%, 4/1/2014		55,000	29,700
Vought Aircraft Industries, Inc., 8.0%, 7/15/2011		35,000	23,625
			2,617,736
Information Technology 1.0%			
Alion Science & Technology Corp., 10.25%, 2/1/2015		40,000	18,050
L-3 Communications Corp.:			
5.875%, 1/15/2015		160,000	144,000
Series B, 6.375%, 10/15/2015		80,000	74,800
7.625%, 6/15/2012		195,000	190,613
Lucent Technologies, Inc., 6.45%, 3/15/2029		165,000	66,000
MasTec, Inc., 7.625%, 2/1/2017		65,000	48,831
Seagate Technology HDD Holdings, 6.8%, 10/1/2016 (b)		90,000	46,800
SunGard Data Systems, Inc., 10.25%, 8/15/2015		135,000	89,100
Vangent, Inc., 9.625%, 2/15/2015		35,000	20,344
			698,538

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

		Principal Amount ($)(a)	Value ($)
Materials 3.2%			
Appleton Papers, Inc., Series B, 8.125%, 6/15/2011		25,000	17,250
ARCO Chemical Co., 9.8%, 2/1/2020**		405,000	44,550
Cascades, Inc., 7.25%, 2/15/2013		130,000	66,300
Chemtura Corp., 6.875%, 6/1/2016		115,000	58,650
Clondalkin Acquisition BV, 144A, 3.996%***, 12/15/2013		75,000	37,875
CPG International I, Inc., 10.5%, 7/1/2013		130,000	72,800
Exopack Holding Corp., 11.25%, 2/1/2014		160,000	93,600
Freeport-McMoRan Copper & Gold, Inc.:			
6.875%, 2/1/2014 (b)		10,000	9,000
8.25%, 4/1/2015 (b)		145,000	123,250
8.375%, 4/1/2017		280,000	229,600
GEO Specialty Chemicals, Inc.:			
144A, 7.5%***, 3/31/2015 (PIK)		115,036	82,826
144A, 9.968%***, 12/31/2009		186,000	133,920
Georgia-Pacific LLC:			
144A, 7.125%, 1/15/2017		35,000	29,400
9.5%, 12/1/2011		50,000	47,250
Hexcel Corp., 6.75%, 2/1/2015		195,000	148,200
Huntsman LLC, 11.625%, 10/15/2010		243,000	212,625
Innophos, Inc., 8.875%, 8/15/2014		35,000	24,500
International Paper Co., 7.4%, 6/15/2014		400,000	327,884
Jefferson Smurfit Corp., 8.25%, 10/1/2012		65,000	11,050
Koppers Holdings, Inc., Step-up Coupon, 0% to 11/15/2009, 9.875% to 11/15/2014		130,000	100,750
Metals USA Holdings Corp., 10.883%***, 7/1/2012 (PIK)		35,952	10,067
Millar Western Forest Products Ltd., 7.75%, 11/15/2013		35,000	17,500
NewMarket Corp., 7.125%, 12/15/2016		110,000	82,500
NewPage Corp., 10.0%, 5/1/2012 (b)		110,000	48,400
OI European Group BV, 144A, 6.875%, 3/31/2017	EUR	65,000	65,958
Pliant Corp., 11.85%, 6/15/2009 (PIK)		10	5
Radnor Holdings Corp., 11.0%, 3/15/2010**		25,000	31
Smurfit-Stone Container Enterprises, Inc., 8.0%, 3/15/2017		75,000	14,250
Steel Dynamics, Inc., 7.375%, 11/1/2012		10,000	7,300
Terra Capital, Inc., Series B, 7.0%, 2/1/2017		110,000	80,850
The Mosaic Co., 144A, 7.375%, 12/1/2014		85,000	69,700
Witco Corp., 6.875%, 2/1/2026		35,000	9,800
Wolverine Tube, Inc., 10.5%, 4/1/2009		85,000	68,733
			2,346,374
Telecommunication Services 2.9%			
BCM Ireland Preferred Equity Ltd., 144A, 11.245%***, 2/15/2017 (PIK)	EUR	67,207	7,971
Centennial Communications Corp.:			
10.0%, 1/1/2013		40,000	41,400
10.125%, 6/15/2013		90,000	90,900
Cincinnati Bell, Inc.:			
7.25%, 7/15/2013		145,000	127,600
8.375%, 1/15/2014 (b)		55,000	42,350
Cricket Communications, Inc.:			
9.375%, 11/1/2014		120,000	108,000
144A, 10.0%, 7/15/2015		100,000	91,500
Frontier Communications Corp.:			
6.25%, 1/15/2013		45,000	38,250
9.25%, 5/15/2011		35,000	33,250
Grupo Iusacell Celular SA de CV, 10.0%, 3/31/2012		28,848	19,039
Hellas Telecommunications Luxembourg V, 144A, 8.818%***, 10/15/2012	EUR	200,000	164,026
Intelsat Corp.:			
144A, 9.25%, 8/15/2014		25,000	23,250
144A, 9.25%, 6/15/2016		250,000	227,500
Intelsat Subsidiary Holding Co., Ltd., 144A, 8.875%, 1/15/2015		130,000	118,300
iPCS, Inc., 5.318%***, 5/1/2013		35,000	24,850
MetroPCS Wireless, Inc., 9.25%, 11/1/2014		150,000	134,250
Millicom International Cellular SA, 10.0%, 12/1/2013		265,000	238,500
Qwest Corp.:			
7.25%, 9/15/2025		20,000	13,400
7.875%, 9/1/2011		135,000	124,200
8.875%, 3/15/2012		30,000	27,750
Sprint Nextel Corp., 6.0%, 12/1/2016		75,000	52,875
Stratos Global Corp., 9.875%, 2/15/2013		30,000	28,350
Telesat Canada, 144A, 11.0%, 11/1/2015		170,000	121,550
Virgin Media Finance PLC:			
8.75%, 4/15/2014		120,000	90,000
8.75%, 4/15/2014	EUR	85,000	83,299
Windstream Corp.:			
7.0%, 3/15/2019		60,000	46,200
8.625%, 8/1/2016		10,000	8,850
			2,127,410
Utilities 4.5%			
AES Corp.:			
8.0%, 10/15/2017		100,000	82,000
144A, 8.0%, 6/1/2020		110,000	85,250
144A, 8.75%, 5/15/2013		315,000	302,400
9.5%, 6/1/2009		75,000	74,438
Allegheny Energy Supply Co., LLC, 144A, 8.25%, 4/15/2012		470,000	462,950
CMS Energy Corp., 8.5%, 4/15/2011		225,000	221,581

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

	Principal Amount ($)(a)	Value ($)
Dominion Resources, Inc., Series D, 8.875%, 1/15/2019	500,000	539,195
Edison Mission Energy, 7.0%, 5/15/2017	105,000	91,350
Energy Future Holdings Corp., 144A, 10.875%, 11/1/2017	150,000	106,500
Intergas Finance BV, REG S, 6.875%, 11/4/2011	275,000	214,500
Knight, Inc., 6.5%, 9/1/2012	90,000	76,050
Mirant Americas Generation LLC, 8.3%, 5/1/2011	130,000	126,100
Mirant North America LLC, 7.375%, 12/31/2013	60,000	57,600
NRG Energy, Inc.:		
7.25%, 2/1/2014	125,000	116,875
7.375%, 2/1/2016	105,000	97,650
7.375%, 1/15/2017	90,000	82,800
NV Energy, Inc.:		
6.75%, 8/15/2017	105,000	80,602
8.625%, 3/15/2014	25,000	22,539
Oncor Electric Delivery Co., 7.0%, 9/1/2022	45,000	42,048
Regency Energy Partners LP, 8.375%, 12/15/2013	80,000	54,800
Reliant Energy, Inc., 7.875%, 6/15/2017	125,000	101,250
Texas Competitive Electric Holdings Co., LLC, 144A, 10.5%, 11/1/2015	275,000	195,250
		3,233,728
Total Corporate Bonds (Cost $37,279,304)		**30,203,491**

Commercial and Non-Agency Mortgage-Backed Securities 1.9%

	Principal Amount ($)(a)	Value ($)
Credit Suisse Mortgage Capital Certificates Trust, "A2", Series 2007-C1, 5.268%, 2/15/2040	814,000	623,318
JPMorgan Chase Commercial Mortgage Securities Corp., "F", Series 2004-LN2, 144A, 5.448%***, 7/15/2041	500,000	133,537
Wachovia Bank Commercial Mortgage Trust, "A2", Series 2007-C32, 5.736%***, 6/15/2049	780,000	610,032
Total Commercial and Non-Agency Mortgage-Backed Securities (Cost $1,955,101)		**1,366,887**

Collateralized Mortgage Obligations 1.5%

	Principal Amount ($)(a)	Value ($)
FannieMae Grantor Trust, "1A4", Series 2004-T2, 7.5%, 11/25/2043 (Cost $1,041,071)	1,003,544	**1,056,544**

Asset-Backed 1.0%

Credit Card Receivables

	Principal Amount ($)(a)	Value ($)
Washington Mutual Master Note Trust, "C1", Series 2007-C1, 144A, 1.595%***, 5/15/2014 (Cost $954,141)	1,000,000	**742,280**

Mortgage-Backed Securities Pass-Throughs 2.8%

	Principal Amount ($)(a)	Value ($)
Government National Mortgage Association:		
4.5%, 12/1/2033 (i)	1,000,000	1,012,812
5.0%, 6/1/2034 (i)	1,000,000	1,026,250
Total Mortgage-Backed Securities Pass-Throughs (Cost $2,023,867)		**2,039,062**

Government & Agency Obligations 42.2%

Sovereign Bonds 34.0%

		Principal Amount ($)(a)	Value ($)
Aries Vermogensverwaltung GmbH, Series C, REG S, 9.6%, 10/25/2014		250,000	315,950
Dominican Republic, REG S, 9.5%, 9/27/2011		135,694	115,340
Federal Republic of Germany, Series 06, 4.0%, 7/4/2016	EUR	1,700,000	2,546,412
Federative Republic of Brazil:			
8.875%, 10/14/2019		715,000	872,300
12.5%, 1/5/2016	BRL	250,000	106,013
Government of Canada, 4.5%, 6/1/2015	CAD	900,000	831,747
Kingdom of Spain, 3.15%, 1/31/2016	EUR	1,300,000	1,753,069
Province of Quebec, Series PO, 1.6%, 5/9/2013	JPY	600,000,000	6,847,632
Republic of Argentina, 5.83%, 12/31/2033 (PIK)	ARS	436	61
Republic of Colombia:			
8.25%, 12/22/2014		170,000	183,175
10.0%, 1/23/2012 (b)		238,000	265,965
Republic of El Salvador, 144A, 7.65%, 6/15/2035		541,000	343,535
Republic of Greece:			
3.6%, 7/20/2016	EUR	1,400,000	1,768,938
4.5%, 9/20/2037	EUR	1,750,000	1,960,387
Republic of Indonesia, 144A, 6.875%, 3/9/2017		340,000	278,800
Republic of Panama:			
7.125%, 1/29/2026		166,000	156,455
9.375%, 1/16/2023		500,000	520,000
Republic of Peru:			
6.55%, 3/14/2037 (b)		470,000	419,475
7.35%, 7/21/2025		815,000	810,925
Republic of Philippines, 8.375%, 2/15/2011		20,000	20,800
Republic of Turkey:			
7.0%, 9/26/2016		305,000	297,375
7.25%, 3/15/2015		80,000	79,600
11.75%, 6/15/2010		475,000	508,250
Republic of Uruguay:			
7.625%, 3/21/2036		60,000	50,400
9.25%, 5/17/2017		105,000	107,100
Republic of Venezuela, 10.75%, 9/19/2013		605,000	396,275
Russian Federation, REG S, 7.5%, 3/31/2030		656,600	572,660
Socialist Republic of Vietnam, 144A, 6.875%, 1/15/2016		510,000	423,300
United Kingdom Treasury Bond, 4.75%, 9/7/2015	GBP	1,250,000	1,991,176
United Mexican States, Series A, 5.875%, 1/15/2014		220,000	224,950
			24,768,065

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

	Principal Amount ($)(a)	Value ($)
US Government Sponsored Agencies 1.1%		
Federal Home Loan Bank, 7.45%***, 10/16/2023	600,000	594,000
Federal National Mortgage Association, 8.45%***, 2/27/2023	250,000	250,000
		844,000
US Treasury Obligations 7.1%		
US Treasury Bills:		
0.04%****, 5/21/2009 (d)	41,000	40,988
0.17%****, 1/15/2009 (d)	736,000	735,996
US Treasury Bonds, 4.375%, 2/15/2038	1,010,000	1,352,769
US Treasury Notes:		
2.75%, 10/31/2013	1,050,000	1,116,281
3.75%, 11/15/2018	1,665,000	1,884,830
		5,130,864
Total Government & Agency Obligations (Cost $30,914,463)		**30,742,929**

Loan Participations and Assignments 1.8%

Senior Loans*** 1.7%

	Principal Amount ($)(a)	Value ($)
Advanced Medical Optics, Inc., Term Loan B, LIBOR plus 1.75%, 3.754%, 4/2/2014	29,333	19,116
Buffets, Inc.:		
Letter of Credit, LIBOR plus 7.25%, 9.254%, 5/1/2013	18,670	4,695
Term Loan B, LIBOR plus 7.25%, 9.254%, 11/1/2013	95,001	23,893
Term Loan DIP, LIBOR plus 7.25%, 9.254%, 11/1/2013	45,671	11,486
Charter Communications Operating LLC:		
Term Loan, LIBOR plus 2.0%, 4.004%, 3/6/2014	104,213	77,154
Incremental Term Loan, LIBOR plus 5.0%, 7.004%, 3/6/2014	114,425	90,825
Energy Future Holdings Corp.:		
Term Loan B2, LIBOR plus 3.5%, 5.504%, 10/10/2014	460,350	322,245
Term Loan B3, LIBOR plus 3.5%, 5.504%, 10/10/2014	192,000	133,600
Essar Steel Algoma, Inc., Term Loan B, LIBOR plus 2.5%, 4.504%, 6/30/2013	37,664	23,352
Ford Motor Co., Term Loan B, LIBOR plus 3.0%, 5.004%, 12/16/2013	49,746	20,410
General Nutrition Centers, Inc., Term Loan B, LIBOR plus 2.25%, 4.254%, 9/16/2013	29,698	19,898
Golden Nugget, Term Loan, 3.73%, 6/16/2014	55,000	5,775
Hawker Beechcraft, Inc.:		
Letter of Credit, LIBOR plus 2.0%, 4.004%, 3/26/2014	2,405	1,262
Term Loan B, LIBOR plus 2.0%, 4.004%, 3/26/2014	41,056	21,538
HCA, Inc., Term Loan A, LIBOR plus 1.5%, 3.504%, 11/17/2012	161,125	136,876
Hexion Specialty Chemicals:		
Term Loan C1, LIBOR plus 2.25%, 4.254%, 5/6/2013	152,345	64,595
Term Loan C2, LIBOR plus 2.25%, 4.254%, 5/6/2013	41,335	17,526
IASIS Healthcare LLC, Term Loan, LIBOR plus 5.25%, 7.254%, 6/15/2014 (PIK)	72,913	41,925
Longview Power LLC:		
Letter of Credit, 1.35%, 4/1/2014	4,000	2,500
Demand Draw, 3.75%, 4/1/2014	14,000	8,750
Term Loan B, 4.25%, 4/1/2014	12,000	7,500
NewPage Corp., Term Loan, LIBOR plus 3.75%, 5.754%, 12/19/2014	14,888	9,664
Sabre, Inc., Term Loan B, LIBOR plus 2.0%, 4.004%, 9/30/2014	48,590	21,206
Symbion, Inc.:		
Term Loan A, LIBOR plus 3.25%, 5.254%, 8/23/2013	23,650	14,781
Term Loan B, LIBOR plus 3.25%, 5.254%, 8/23/2014	23,650	14,781
Telesat Canada:		
Delayed Draw Term Loan, LIBOR plus 3.0%, 5.004%, 10/31/2014	11,780	8,075
Term Loan B, LIBOR plus 3.0%, 5.004%, 10/31/2014	137,153	94,018
Tribune Co., Tranche B, LIBOR plus 3.0%, 5.004%, 5/19/2014**	88,875	25,647
		1,243,093

Sovereign Loans 0.1%

	Principal Amount ($)(a)	Value ($)
CSFB International (Exim Ukraine), 6.8%, 10/4/2012	105,000	**42,000**
Total Loan Participations and Assignments (Cost $2,117,171)		**1,285,093**

Municipal Bonds and Notes 1.5%

	Principal Amount ($)(a)	Value ($)
Tacoma, WA, Electric System Revenue, Series A, Prerefunded, 5.75%, 1/1/2020 (e) (Cost $1,069,209)	1,000,000	**1,093,240**

Preferred Securities 0.1%

Financials

	Principal Amount ($)(a)	Value ($)
Citigroup, Inc., Series E, 8.4%, 4/30/2018 (f)	80,000	52,823
Xerox Capital Trust I, 8.0%, 2/1/2027 (b)	35,000	23,901
Total Preferred Securities (Cost $106,681)		**76,724**

Preferred Stock 0.0%

Financial

	Principal Amount ($)(a)	Value ($)
Preferred Blocker Inc., 144A, 9.0%	63	**17,989**
Total Preferred Stocks (Cost $17,989)		**17,989**

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

	Shares	Value ($)
Warrants 0.0%		
Financials 0.0%		
New ASAT (Finance) Ltd., Expiration Date 2/1/2011*	15,600	**1,224**
Industrials 0.0%		
Dayton Superior Corp., 144A, Expiration Date 6/15/2009*	10	**0**
Total Warrants (Cost $0)		**1,224**

	Units	Value ($)
Other Investments 0.1%		
Materials		
Hercules, Inc., (Bond Unit), 6.5%, 6/30/2029 (Cost $67,414)	85,000	**40,800**

	Shares	Value ($)
Common Stocks 0.0%		
Consumer Discretionary 0.0%		
Vertis Holdings, Inc.*	940	**0**
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	2,058	**1,749**
Total Common Stocks (Cost $19,822)		**1,749**

	Shares	Value ($)
Convertible Preferred Stocks 0.0%		
Consumer Discretionary		
ION Media Networks, Inc.		
144A, 12.0%*	10,000	0
Series AI, 144A, 12.0%*	20,000	0
Total Convertible Preferred Stocks (Cost $4,191)		**0**
Securities Lending Collateral 2.6%		
Daily Assets Fund Institutional, 1.69% (g) (h) (Cost $1,898,503)	1,898,503	**1,898,503**
Cash Equivalents 6.0%		
Cash Management QP Trust, 1.42% (g) (Cost $4,357,924)	4,357,924	**4,357,924**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $83,826,851)†	103.0	**74,924,439**
Other Assets and Liabilities, Net	(3.0)	**(2,161,774)**
Net Assets	100.0	**72,762,665**

* *Non-income producing security.*

** *Non-income producing security. Issuer has defaulted on the payment of principal or interest or has filed for bankruptcy. The following table represents bonds that are in default:*

Securities	Coupon	Maturity Date	Principal Amount		Acquisition Cost ($)	Value ($)
Ashton Woods USA LLC	9.5%	10/1/2015	145,000	USD	132,667	29,000
Congoleum Corp.	8.625%	8/1/2008	125,000	USD	105,994	93,750
Quebecor World, Inc.	9.75%	1/15/2015	45,000	USD	45,000	3,544
Radnor Holdings Corp.	11.0%	3/15/2010	25,000	USD	15,888	31
Tribune Co.	5.004%	5/19/2014	88,875	USD	88,819	25,647
Tropicana Entertainment LLC	9.625%	12/15/2014	150,000	USD	122,979	1,500
Trump Entertainment Resorts, Inc.	8.5%	6/1/2015	15,000	USD	10,838	1,988
					522,185	**155,460**

*** *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, 2008.*

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

† *The cost for federal income tax purposes was $83,894,744. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $8,970,305. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,592,990 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $11,563,295.*

(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, 2008 amounted to $1,822,255, which is 2.5% of net assets.*

(c) *Security has deferred its 6/15/2008 interest payment until 6/30/2009.*

(d) *At December 31, 2008, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.*

(e) *Bond is insured by one of these companies:*

Insurance Coverage	As a % of Total Investment Portfolio
Financial Security Assurance, Inc.	1.5

(f) *Date shown is call date; not a maturity date for the perpetual preferred securities.*

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

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

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

(i) *When-issued or delayed delivery securities included.*

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.

Prerefunded: Bonds which are prerefunded are collateralized usually by US Treasury securities which are held in escrow and used to pay principal and interest on tax-exempt issues and to retire the bonds in full at the earliest refunding date.

REG S: Securities sold under Regulation S may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

At December 31, 2008, open futures contracts purchased were as follows:

Futures	**Expiration Date**	**Contracts**	**Aggregate Face Value ($)**	**Value ($)**	**Unrealized Appreciation/ (Depreciation) ($)**
10 Year Australian Treasury Bond	3/16/2009	16	1,253,954	1,298,423	44,469
10 Year Canadian Government Bond	3/20/2009	9	868,246	924,131	55,885
2 Year US Treasury Note	3/31/2009	7	1,507,863	1,526,438	18,575
AEX Index	1/16/2009	8	550,314	547,902	(2,412)
ASX SPI 200 Index	3/19/2009	6	373,259	391,757	18,498
DAX Index	3/20/2009	1	165,124	168,005	2,881
DJ Euro Stoxx 50 Index	3/20/2009	1	33,865	34,056	191
Federal Republic of Germany Euro-Bund	3/6/2009	11	1,902,012	1,908,871	6,859
Federal Republic of Germany Euro-Schatz	3/6/2009	28	4,174,657	4,182,880	8,223
Hang Seng Index	1/29/2009	1	93,676	92,933	(743)
S&P MIB Index	3/20/2009	1	133,312	134,988	1,676
Swiss Market Index	3/20/2009	9	461,381	460,929	(452)
United Kingdom Long Gilt Bond	3/27/2009	7	1,163,841	1,242,633	78,792
Total net unrealized appreciation					**232,442**

At December 31, 2008, open futures contracts sold were as follows:

Futures	**Expiration Date**	**Contracts**	**Aggregate Face Value ($)**	**Value ($)**	**Unrealized Depreciation ($)**
10 Year Japanese Government Bond	3/11/2009	1	1,537,216	1,545,725	(8,509)
10 Year US Treasury Note	3/20/2009	34	4,130,092	4,275,500	(145,408)
CAC 40 Index	1/16/2009	10	446,804	447,735	(931)
FTSE 100 Index	3/20/2009	2	122,656	126,235	(3,579)
NASDAQ E-Mini 100 Index	3/20/2009	7	167,312	169,750	(2,438)
Russell E Mini 2000 Index	3/20/2009	2	91,025	99,580	(8,555)
S&P E-Mini 500 Index	3/20/2009	7	305,289	315,035	(9,746)
S&P TSE 60 Index	3/19/2009	2	165,937	174,937	(9,000)
TOPIX Index	3/13/2009	9	805,483	855,819	(50,336)
Total net unrealized depreciation					**(238,502)**

At December 31, 2008, open written options contracts were as follows:

Written Options	**Contract Amount**	**Expiration Date**	**Value ($)**
Call Options			
Option on an interest rate swap for the obligation to receive a fixed rate of 2.7% versus the one-year LIBOR expiring on October 13, 2010	3,000,000	10/13/2009	36,742
Option on an interest rate swap for the obligation to receive a fixed rate of 3.12% versus the one-year LIBOR expiring on September 18, 2010	3,000,000	9/18/2009	1,395
Total Call Options (Premiums received $35,475)			**38,137**
Put Options			
Option on an interest rate swap for the obligation to pay a fixed rate of 2.7% versus the one-year LIBOR expiring on October 13, 2010	3,000,000	10/13/2009	2,852
Option on an interest rate swap for the obligation to pay a fixed rate of 3.12% versus the one-year LIBOR expiring on September 18, 2010	3,000,000	9/18/2009	77,716
Total Put Options (Premiums received $35,475)			**80,568**
Total Written Options (Premiums received $70,950)			**118,705**

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

At December 31, 2008, open credit default swap contracts purchased were as follows:

Effective/Expiration Date	Notional Amount ($)	Fixed Cash Flows Paid	Underlying Debt Obligation/Quality Rating (k)	Value ($)	Upfront Premiums Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
5/2/2008 6/20/2013	50,000[1]	7.25%	ARCO Chemical Co., 9.8%, 2/1/2020, D	36,120	—	36,120
8/14/2008 9/20/2013	200,000[2]	3.0%	Expedia, Inc., 7.456%, 8/15/2018, BB	25,151	—	25,151
9/29/2008 12/20/2013	400,000[2]	2.2%	Darden Restaurants, Inc., 6.0%, 8/15/2035, BBB	6,998	—	6,998
10/8/2008 12/20/2013	200,000[5]	0.87%	Arrow Electronics, Inc., 6.875%, 6/1/2018, BBB–	10,443	—	10,443
10/17/2008 12/20/2013	400,000[4]	0.75%	Walt Disney Co., 5.625%, 9/15/2016, A	2,144	—	2,144
11/20/2008 12/20/2013	160,000[4]	1.25%	ACE INA Holdings, Inc., 8.875%, 8/15/2029, A–	(1,926)	—	(1,926)
11/21/2008 12/20/2013	320,000[3]	3.5%	Kohl's Corp., 6.25%, 12/15/2017, BBB+	(9,424)	—	(9,424)
11/20/2008 12/22/2013	160,000[4]	3.15%	Allstate Corp., 6.75%, 5/15/2018, A+	(8,641)	—	(8,641)
12/3/2008 6/20/2014	300,000[5]	4.4%	International Paper Co., 5.3%, 4/1/2015, BBB	10,379	—	10,379
12/31/2008 3/20/2014	160,000[2]	5.5%	Limited Brands, Inc., 6.9%, 7/15/2017, BB+	0	—	0
12/31/2008 3/20/2014	160,000[3]	7.0%	Macy's Retail Holdings, Inc., 7.45%, 7/15/2017, BBB–	0	—	0
12/31/2008 3/20/2014	160,000[2]	5.25%	Nordstrom, Inc., 6.95%, 5/15/2028, A–	0	—	0
Total net unrealized appreciation						**71,244**

At December 31, 2008, open credit default swap contracts sold were as follows:

Effective/Expiration Date	Notional Amount ($) (j)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (k)	Value ($)	Upfront Premiums Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
2/26/2008 3/20/2009	150,000[1]	5.0%	Tenet Healthcare Corp., 7.375%, 2/1/2013, B	303	—	303
2/14/2008 3/20/2009	190,000[1]	3.8%	HCA, Inc., 6.375%, 1/15/2015, B–	(578)	—	(578)
Total net unrealized depreciation						**(275)**

(j) *The maximum potential amount of future undiscounted payments that the Portfolio could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Portfolio for the same referenced debt obligation.*

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

At December 31, 2008, open total return swap contracts were as follows:

Effective/Expiration Date	Notional Amount ($)	Fixed Cash Flows Paid	Reference Entity	Value ($)	Upfront Premiums Paid/(Received) ($)	Unrealized Appreciation ($)
12/1/2008 12/1/2010	1,900,000[3]	0.35%	Citi Global Interest Rate Strategy Index	89,237	3,800	**85,437**

Counterparties:

1 *Merrill Lynch, Pierce, Fenner & Smith, Inc.*

2 *JPMorgan Chase Securities, Inc.*

3 *Citigroup, Inc.*

4 *Bank of America*

5 *The Goldman Sachs & Co.*

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

At December 31, 2008, the Portfolio had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)
CHF	5,490	USD	5,180	1/5/2009	21
EUR	12,300	USD	17,178	1/15/2009	92
EUR	520,200	USD	748,992	1/15/2009	26,393
EUR	1,323,000	USD	1,667,152	1/21/2009	170,086
GBP	1,464,000	USD	2,144,028	1/21/2009	40,443
USD	28,620	NZD	54,000	1/21/2009	2,828
USD	1,452,654	SEK	12,150,000	1/21/2009	83,128
USD	1,009,901	CHF	1,224,000	1/21/2009	140,369
USD	2,552,374	SGD	3,895,000	1/21/2009	149,110
Total unrealized appreciation					**612,470**

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)
USD	6,188	JPY	560,000	1/5/2009	(10)
AUD	17,298	USD	11,939	1/6/2009	(112)
EUR	5,300	USD	7,335	1/15/2009	(27)
AUD	103,000	USD	66,240	1/21/2009	(5,397)
CAD	398,000	USD	315,572	1/21/2009	(6,708)
JPY	99,512,000	USD	1,076,970	1/21/2009	(21,275)
NOK	9,780,000	USD	1,357,297	1/21/2009	(37,106)
USD	941,300	GBP	650,000	1/30/2009	(7,418)
USD	141,358	EUR	100,000	1/30/2009	(2,510)
JPY	25,000,000	USD	270,140	2/4/2009	(5,814)
Total unrealized depreciation					**(86,377)**

Currency Abbreviations

ARS	Argentine Peso	EUR	Euro	NZD	New Zealand Dollar
AUD	Australian Dollar	GBP	British Pound	SEK	Swedish Krona
BRL	Brazilian Real	JPY	Japanese Yen	SGD	Singapore Dollar
CAD	Canadian Dollar	NOK	Norwegian Krone	USD	United States Dollar
CHF	Swiss Franc				

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the tables below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities	Options Written, at value	Other Financial Instruments††
Level 1	$ 1,916,492	$ —	$ (6,060)
Level 2	71,130,364	(118,705)	682,499
Level 3	1,877,583	—	—
Total	**$ 74,924,439**	**$ (118,705)**	**$ 676,439**

†† *Other financial instruments are derivative instruments not reflected in the Investment Portfolio, such as futures contracts, forward foreign exchange contracts, credit default and total return swap contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.*

The following is a reconciliation of the Portfolio's Level 3 investments for which significant unobservable inputs were used in determining value at December 31, 2008:

	Investments in Securities
Balance as of January 1, 2008	$ 533,240
Net realized gain (loss)	(10,075)
Change in unrealized appreciation (depreciation)	(370,181)
Amortization Premium/Discount	(32)
Net purchases (sales)	1,546,583
Net transfers in (out) of Level 3	178,048
Balance as of December 31, 2008	**$ 1,877,583**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $77,570,424) — including $1,822,255 of securities loaned	$	68,668,012
Investment in Daily Assets Fund Institutional (cost $1,898,503)*		1,898,503
Investment in Cash Management QP Trust (cost $4,357,924)		4,357,924
Total investments, at value (cost $83,826,851)		74,924,439
Cash		99,351
Foreign currency, at value (cost $227,366)		220,632
Receivable for investments sold		1,036,730
Interest receivable		1,243,610
Receivable for variation margin on open futures contracts		59,336
Unrealized appreciation on forward foreign currency exchange contracts		612,470
Unrealized appreciation on swap contracts		176,975
Other assets		2,259
Total assets		78,375,802
Liabilities		
Payable for when-issued and delayed delivery securities purchased		3,048,810
Payable upon return of securities loaned		1,898,503
Payable for Portfolio shares redeemed		211,040
Options written, at value (premiums received $70,950)		118,705
Net payable on closed forward foreign currency exchange contracts		72,505
Unrealized depreciation on forward foreign currency exchange contracts		86,377
Unrealized depreciation on swap contracts		20,569
Accrued management fee		36,651
Other accrued expenses and payables		119,977
Total liabilities		5,613,137
Net assets, at value	**$**	**72,762,665**
Net Assets Consist of		
Undistributed net investment income		3,179,356
Net unrealized appreciation (depreciation) on:		
Investments		(8,902,412)
Written options		(47,755)
Swaps contracts		156,406
Futures		(6,060)
Foreign currency		525,454
Accumulated net realized gain (loss)		(2,959,925)
Paid-in capital		80,817,601
Net assets, at value	**$**	**72,762,665**
Class A		
Net Asset Value, offering and redemption price per share ($72,716,859 ÷ 7,250,530 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**10.03**
Class B		
Net Asset Value, offering and redemption price per share ($45,806 ÷ 4,594 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**9.97**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Interest	$	5,513,843
Interest — Cash Management QP Trust		275,559
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		55,140
Total Income		5,844,542
Expenses:		
Management fee		578,416
Administration fee		62,261
Services to shareholders		185
Custodian fee		29,661
Distribution service fee (Class B)		7,116
Record keeping fees (Class B)		2,761
Legal fees		25,538
Audit and tax fees		68,559
Trustees' fees and expenses		18,555
Reports to shareholders and shareholder meeting		47,693
Other		43,660
Total expenses before expense reductions		884,405
Expense reductions		(19,768)
Total expenses after expense reductions		864,637
Net investment income (loss)		**4,979,905**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(3,639,982)
Swap contracts		(16,443)
Futures		212,011
Foreign currency		(1,528,113)
Payments by affiliates (see Note I)		1,022
		(4,971,505)
Change in net unrealized appreciation (depreciation) on:		
Investments		(9,102,978)
Unfunded loan commitments		21
Swap contracts		160,383
Written options		(47,755)
Futures		(144,864)
Foreign currency		649,132
		(8,486,061)
Net gain (loss)		**(13,457,566)**
Net increase (decrease) in net assets resulting from operations	**$**	**(8,477,661)**

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, 2008	2007
Operations:		
Net investment income	$ 4,979,905	$ 5,848,274
Net realized gain (loss)	(4,971,505)	2,363,743
Change in net unrealized appreciation (depreciation)	(8,486,061)	(2,405,723)
Net increase (decrease) in net assets resulting from operations	(8,477,661)	5,806,294
Distributions to shareholders from:		
Net investment income:		
Class A	(6,041,956)	(5,451,249)
Class B	(489,657)	(1,430,805)
Net realized gains:		
Class A	(1,320,099)	—
Class B	(114,923)	—
Total distributions	(7,966,635)	(6,882,054)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	22,468,946	27,023,346
Reinvestment of distributions	7,362,055	5,451,249
Cost of shares redeemed	(41,402,528)	(17,567,946)
Net increase (decrease) in net assets from Class A share transactions	(11,571,527)	14,906,649
Class B		
Proceeds from shares sold	755,481	2,524,276
Reinvestment of distributions	604,580	1,430,805
Cost of shares redeemed	(9,329,944)	(19,503,873)
Net increase (decrease) in net assets from Class B share transactions	(7,969,883)	(15,548,792)
Increase (decrease) in net assets	(35,985,706)	(1,717,903)
Net assets at beginning of period	108,748,371	110,466,274
Net assets at end of period (including undistributed net investment income of $3,179,356 and $6,660,644, respectively)	**$ 72,762,665**	**$ 108,748,371**

Other Information		
Class A		
Shares outstanding at beginning of period	8,561,326	7,267,545
Shares sold	2,033,447	2,337,780
Shares issued to shareholders in reinvestment of distributions	674,181	483,267
Shares redeemed	(4,018,424)	(1,527,266)
Net increase (decrease) in Class A shares	(1,310,796)	1,293,781
Shares outstanding at end of period	**7,250,530**	**8,561,326**
Class B		
Shares outstanding at beginning of period	737,068	2,104,567
Shares sold	66,046	219,518
Shares issued to shareholders in reinvestment of distributions	55,517	127,295
Shares redeemed	(854,037)	(1,714,312)
Net increase (decrease) in Class B shares	(732,474)	(1,367,499)
Shares outstanding at end of period	**4,594**	**737,068**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$11.70**	**$11.80**	**$11.50**	**$12.25**	**$11.82**
Income (loss) from investment operations:					
Net investment income[a]	.55	.63	.62	.65	.58
Net realized and unrealized gain (loss)	(1.38)	(.01)	.36	(.39)	.39
Total from investment operations	(.83)	.62	.98	.26	.97
Less distributions from:					
Net investment income	(.69)	(.72)	(.57)	(.98)	—
Net realized gains	(.15)	—	(.11)	(.03)	(.54)
Total distributions	(.84)	(.72)	(.68)	(1.01)	(.54)
Net asset value, end of period	**$10.03**	**$11.70**	**$11.80**	**$11.50**	**$12.25**
Total Return (%)	(7.75)[b]	5.43[b]	8.98	2.38	8.60
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	73	100	86	71	62
Ratio of expenses before expense reductions (%)	.89	.84	.85	.88	.84
Ratio of expenses after expense reductions (%)	.87	.83	.85	.88	.84
Ratio of net investment income (loss) (%)	5.06	5.50	5.47	5.61	4.99
Portfolio turnover rate (%)	234	147	143	120	210

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,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$11.64**	**$11.74**	**$11.44**	**$12.17**	**$11.78**
Income (loss) from investment operations:					
Net investment income[a]	.49	.59	.59	.61	.53
Net realized and unrealized gain (loss)	(1.36)	(.01)	.35	(.38)	.40
Total from investment operations	(.87)	.58	.94	.23	.93
Less distributions from:					
Net investment income	(.65)	(.68)	(.53)	(.93)	—
Net realized gains	(.15)	—	(.11)	(.03)	(.54)
Total distributions	(.80)	(.68)	(.64)	(.96)	(.54)
Net asset value, end of period	**$ 9.97**	**$11.64**	**$11.74**	**$11.44**	**$12.17**
Total Return (%)	(8.00)[b]	5.07[b]	8.75[b]	1.92[b]	8.27
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.05	9	25	26	21
Ratio of expenses before expense reductions (%)	1.30	1.21	1.24	1.25	1.22
Ratio of expenses after expense reductions (%)	1.28	1.20	1.18	1.21	1.22
Ratio of net investment income (loss) (%)	4.65	5.13	5.14	5.28	4.61
Portfolio turnover rate (%)	234	147	143	120	210

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, 2008

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, 2008 are 0.91% and 1.29% 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, 2008.

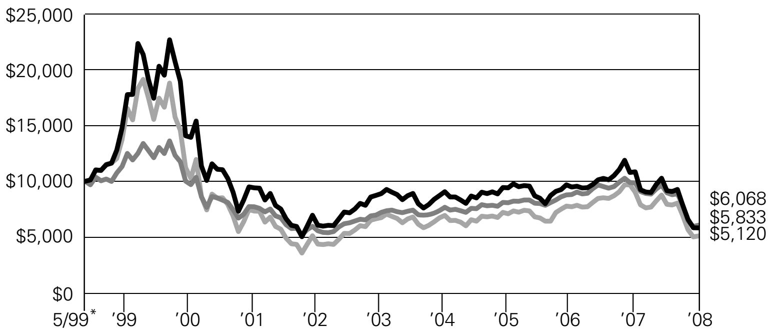
Risk Considerations

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. 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.

Portfolio returns shown during 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 Technology VIP from 5/1/1999 to 12/31/2008

- **DWS Technology VIP — Class A**
- **Russell 1000® Growth Index**
- **S&P® Goldman Sachs Technology Index**



Yearly periods ended December 31

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	$5,378	$6,194	$6,549	$5,833
	Average annual total return	–46.22%	–14.76%	–8.12%	–5.42%
Russell 1000 Growth Index	Growth of $10,000	$6,156	$7,508	$8,401	$6,068
	Average annual total return	–38.44%	–9.11%	–3.42%	–5.04%
S&P Goldman Sachs Technology Index	Growth of $10,000	$5,667	$7,221	$7,583	$5,120
	Average annual total return	–43.33%	–10.28%	–5.38%	–6.69%

DWS Technology VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$5,356	$6,124	$6,417	$8,935
	Average annual total return	–46.44%	–15.08%	–8.49%	–1.72%
Russell 1000 Growth Index	Growth of $10,000	$6,156	$7,508	$8,401	$9,923
	Average annual total return	–38.44%	–9.11%	–3.42%	–.12%
S&P Goldman Sachs Technology Index	Growth of $10,000	$5,667	$7,221	$7,583	$10,421
	Average annual total return	–43.33%	–10.28%	–5.38%	.64%

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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 636.50	$ 634.40
Expenses Paid per $1,000*	$ 4.03	$ 5.42
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,020.21	$1,018.50
Expenses Paid per $1,000*	$ 4.98	$ 6.70

* *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 366.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Technology VIP	.98%	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 Technology VIP

Technology stocks produced a negative absolute return and underperformed the broader market during 2008. Slowing economic growth led to reduced spending by both consumers and corporations, causing sharp reductions to the earnings estimates for tech companies. With this as the backdrop, the Portfolio's benchmarks, the S&P® Goldman Sachs Technology Index and the Russell 1000® Growth Index returned –43.33% and –38.44 respectively, during the annual period. Class A shares of DWS Technology VIP (unadjusted for contract charges) returned –46.22%. Key contributors to relative performance were positions in Foundry Networks* (which was bid for by Brocade Communications Systems in July), Taiwan Semiconductor Manufacturing Co. Ltd. and Visa, Inc. Notable detractors were Ciena Corp., Nvidia Corp.* and an underweight in International Business Machines Corp.[1]

The fund's management team changed on November 21, 2008. While many features of the previous approach remain intact, such as an emphasis on looking for investment ideas across the entire market capitalization spectrum, there is now also a thematic component to the Portfolio's strategy. Among the investment themes that we will focus on are the growing need for firms to use technology to meet their compliance and regulation requirements, server/storage/desktop virtualization, technologies that help increase network bandwidth capacity, and continued growth in e-commerce and Internet traffic.

While we remain cautious on the near-term outlook for technology stocks, we believe much of the bad news has already been factored into stock prices. As a result, we are finding compelling values among stocks with rising market share, strong product and/or service offerings, and healthy balance sheets. We will continue to focus our bottom-up research efforts on unearthing these opportunities in the year ahead.

Kelly P. Davis	Clark Chang
Lead Portfolio Manager	*Portfolio Manager,* Deutsche Investment Management Americas Inc.

The S&P Goldman Sachs Technology Index is an unmanaged, capitalization-weighted index based on a universe of technology-related stocks.

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.

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.*

* *Not held in the Portfolio as of December 31, 2008.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Technology VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	98%	99%
Cash Equivalents	2%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Information Technology:		
Communications Equipment	23%	16%
Semiconductors & Semiconductor Equipment	22%	16%
Software	18%	21%
Computers & Peripherals	18%	24%
Internet Software & Services	10%	14%
IT Services	6%	5%
Electronic Equipment & Instruments	1%	2%
Industrials	1%	1%
Consumer Discretionary	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 190. A complete list of portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 98.4%		
Consumer Discretionary 1.1%		
Media		
Grupo Televisa SA (ADR)	43,100	**643,914**
Financials 0.1%		
Real Estate Investment Trusts		
DuPont Fabros Technology, Inc. (REIT) (a)	37,100	**76,797**
Industrials 0.6%		
Electrical Equipment		
First Solar, Inc.* (a)	2,800	**386,288**
Information Technology 96.6%		
Communications Equipment 22.2%		
Ciena Corp.* (a)	60,600	406,020
Cisco Systems, Inc.*	185,800	3,028,540
F5 Networks, Inc.* (a)	25,600	585,216
Harris Corp.	12,000	456,600
Infinera Corp.* (a)	28,500	255,360
Juniper Networks, Inc.*	142,000	2,486,420
Nokia Oyj (ADR)	84,600	1,319,760
Polycom, Inc.*	84,800	1,145,648
QUALCOMM, Inc.	97,616	3,497,581
Sonus Networks, Inc.* (a)	256,400	405,112
		13,586,257
Computers & Peripherals 18.0%		
Apple, Inc.*	36,500	3,115,275
EMC Corp.*	76,200	797,814
Hewlett-Packard Co.	94,500	3,429,405
International Business Machines Corp.	34,000	2,861,440
SanDisk Corp.* (a)	22,700	217,920
Synaptics, Inc.* (a)	35,450	587,052
		11,008,906
Electronic Equipment, Instruments & Components 0.5%		
Hon Hai Precision Industry Co., Ltd.	173,876	**342,789**
Internet Software & Services 10.3%		
eBay, Inc.*	83,700	1,168,452
Equinix, Inc.*	6,200	329,778
Google, Inc. "A"*	15,600	4,799,340
		6,297,570
IT Services 6.3%		
Cognizant Technology Solutions Corp. "A"*	53,500	966,210
Fiserv, Inc.* (a)	29,200	1,062,004
Global Payments, Inc.	28,600	937,794
MasterCard, Inc. "A" (a)	2,300	328,739
Visa, Inc. "A" (a)	10,600	555,970
		3,850,717
Semiconductors & Semiconductor Equipment 21.6%		
Applied Materials, Inc.	29,900	302,887
ASML Holding NV (NY Registered Shares) (a)	32,300	583,661
Broadcom Corp. "A"* (a)	66,800	1,133,596
Cymer, Inc.* (a)	17,900	392,189
FormFactor, Inc.* (a)	22,600	329,960
Integrated Device Technology, Inc.*	55,700	312,477
Intel Corp.	228,289	3,346,717
KLA-Tencor Corp. (a)	22,200	483,738
Marvell Technology Group Ltd.*	69,100	460,897
MediaTek, Inc.	59,287	400,496
MEMC Electronic Materials, Inc.*	9,100	129,948
Microchip Technology, Inc. (a)	57,900	1,130,787
Microsemi Corp.*	29,800	376,672
MKS Instruments, Inc.* (a)	12,700	187,833
National Semiconductor Corp. (a)	67,700	681,739
Netlogic Microsystems, Inc.*	32,000	704,320
Taiwan Semiconductor Manufacturing Co., Ltd. (ADR)	60,007	474,056
Texas Instruments, Inc.	91,400	1,418,528
Varian Semiconductor Equipment Associates, Inc.* (a)	20,900	378,708
		13,229,209
Software 17.7%		
Activision Blizzard, Inc.*	67,800	585,792
Adobe Systems, Inc.*	61,900	1,317,851
Amdocs Ltd.*	17,200	314,588
Citrix Systems, Inc.*	24,700	582,179
Electronic Arts, Inc.*	14,100	226,164
Informatica Corp.*	40,400	554,692
McAfee, Inc.*	17,700	611,889
Microsoft Corp.	123,400	2,398,896
Nintendo Co., Ltd.	1,300	499,453
Oracle Corp.*	159,100	2,820,843
Salesforce.com, Inc.* (a)	7,100	227,271
Symantec Corp.*	31,300	423,176
VanceInfo Technologies, Inc. (ADR)*	51,600	245,100
		10,807,894
Total Common Stocks (Cost $77,464,466)		**60,230,341**
Securities Lending Collateral 13.7%		
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $8,358,135)	8,358,135	**8,358,135**
Cash Equivalents 1.7%		
Cash Management QP Trust, 1.42% (b) (Cost $1,044,313)	1,044,313	**1,044,313**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $86,866,914)†	113.8	**69,632,789**
Other Assets and Liabilities, Net	(13.8)	**(8,438,502)**
Net Assets	100.0	**61,194,287**

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

* *Non-income producing security.*

† *The cost for federal income tax purposes was $93,123,829. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $23,491,040. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,949,503 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $27,440,543.*

(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, 2008 amounted to $8,327,493, which is 13.6% of net assets.*

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

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

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	**Investments in Securities**
Level 1	$ 67,345,738
Level 2	2,287,051
Level 3	—
Total	**$ 69,632,789**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets	
Investments:	
Investments in securities, at value (cost $77,464,466) — including $8,327,493 of securities loaned	$ 60,230,341
Investment in Daily Assets Fund Institutional (cost $8,358,135)*	8,358,135
Investment in Cash Management QP Trust (cost $1,044,313)	1,044,313
Total investments, at value (cost $86,866,914)	69,632,789
Foreign currency, at value (cost $25,795)	28,123
Interest receivable	13,050
Dividends receivable	25,922
Receivable for Portfolio shares sold	39,110
Other assets	3,267
Total assets	69,742,261
Liabilities	
Payable for Portfolio shares redeemed	17,204
Payable upon return of securities loaned	8,358,135
Accrued management fee	33,801
Other accrued expenses and payables	138,834
Total liabilities	8,547,974
Net assets, at value	**$ 61,194,287**
Net Assets Consist of	
Accumulated net investment loss	(4,837)
Net unrealized appreciation (depreciation) on:	
Investments	(17,234,125)
Foreign currency	2,328
Accumulated net realized gain (loss)	(263,873,272)
Paid-in capital	342,304,193
Net assets, at value	**$ 61,194,287**
Class A	
Net Asset Value, offering and redemption price per share ($59,556,510 ÷ 10,336,451 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 5.76**
Class B	
Net Asset Value, offering and redemption price per share ($1,637,777 ÷ 290,168 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 5.64**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $45,450)	$ 847,965
Interest — Cash Management QP Trust	77,951
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	162,024
Total Income	1,087,940
Expenses:	
Management fee	762,698
Administration fee	66,748
Custodian and accounting fees	43,157
Distribution service fee (Class B)	6,303
Record keeping fees (Class B)	2,335
Services to shareholders	468
Professional fees	62,902
Trustees' fees and expenses	14,753
Reports to shareholders and shareholder meeting	112,255
Other	37,821
Total expenses before expense reductions	1,109,440
Expense reductions	(6,385)
Total expenses after expense reductions	1,103,055
Net investment income (loss)	**(15,115)**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments (net of foreign tax of $4,535)	(17,630,579)
Written options	213,987
Foreign currency	(193,319)
	(17,609,911)
Change in net unrealized appreciation (depreciation) on:	
Investments	(45,865,658)
Foreign currency	2,337
	(45,863,321)
Net gain (loss)	**(63,473,232)**
Net increase (decrease) in net assets resulting from operations	**$ (63,488,347)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ (15,115)	$ (274,509)
Net realized gain (loss)	(17,609,911)	19,041,595
Net unrealized appreciation (depreciation)	(45,863,321)	2,725,297
Net increase (decrease) in net assets resulting from operations	(63,488,347)	21,492,383
Portfolio share transactions:		
Class A		
Proceeds from shares sold	4,037,835	10,492,529
Cost of shares redeemed	(35,554,956)	(42,815,094)
Net increase (decrease) in net assets from Class A share transactions	(31,517,121)	(32,322,565)
Class B		
Proceeds from shares sold	405,112	1,326,815
Cost of shares redeemed	(691,475)	(12,807,358)
Net increase (decrease) in net assets from Class B share transactions	(286,363)	(11,480,543)
Increase (decrease) in net assets	(95,291,831)	(22,310,725)
Net assets at beginning of period	156,486,118	178,796,843
Net assets at end of period (including accumulated net investment loss of $4,837 and $5,235, respectively)	**$ 61,194,287**	**$ 156,486,118**

Other Information		
Class A		
Shares outstanding at beginning of period	14,290,167	17,575,288
Shares sold	484,042	994,111
Shares redeemed	(4,437,758)	(4,279,232)
Net increase (decrease) in Class A shares	(3,953,716)	(3,285,121)
Shares outstanding at end of period	**10,336,451**	**14,290,167**
Class B		
Shares outstanding at beginning of period	325,361	1,525,054
Shares sold	46,978	127,903
Shares redeemed	(82,171)	(1,327,596)
Net increase (decrease) in Class B shares	(35,193)	(1,199,693)
Shares outstanding at end of period	**290,168**	**325,361**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$10.71**	**$ 9.37**	**$ 9.30**	**$ 9.01**	**$ 8.84**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.00)[*]	(.02)	(.01)[c]	(.03)	.04
Net realized and unrealized gain (loss)	(4.95)	1.36	.08	.36	.13
Total from investment operations	(4.95)	1.34	.07	.33	.17
Less distributions from:					
Net investment income	—	—	—	(.04)	—
Net asset value, end of period	**$ 5.76**	**$10.71**	**$ 9.37**	**$ 9.30**	**$ 9.01**
Total Return (%)	(46.22)[b]	14.30	.75[c]	3.74	1.92
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	60	153	165	199	230
Ratio of expenses before expense reductions (%)	1.01	.91	.89	.86	.83
Ratio of expenses after expense redctions (%)	1.00	.91	.89	.86	.83
Ratio of net investment income (loss) (%)	(.01)	(.15)	(.12)[c]	(.36)	.43
Portfolio turnover rate (%)	71	91	49	135	112

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 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.*

* *Amount is less than $0.005.*

Class B

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$10.53**	**$ 9.25**	**$ 9.21**	**$ 8.93**	**$ 8.80**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.03)	(.05)	(.04)[c]	(.07)	.01
Net realized and unrealized gain (loss)	(4.86)	1.33	.08	.36	.12
Total from investment operations	(4.89)	1.28	.04	.29	.13
Less distributions from:					
Net investment income	—	—	—	(.01)	—
Net asset value, end of period	**$ 5.64**	**$10.53**	**$ 9.25**	**$ 9.21**	**$ 8.93**
Total Return (%)	(46.44)[b]	13.84	.43[c]	3.27	1.48[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	3	14	16	16
Ratio of expenses before expense reductions (%)	1.35	1.29	1.28	1.26	1.22
Ratio of expenses after expense reductions (%)	1.35	1.29	1.28	1.26	1.21
Ratio of net investment income (loss) (%)	(.35)	(.53)	(.51)[c]	(.76)	.05
Portfolio turnover rate (%)	71	91	49	135	112

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 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, 2008

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.

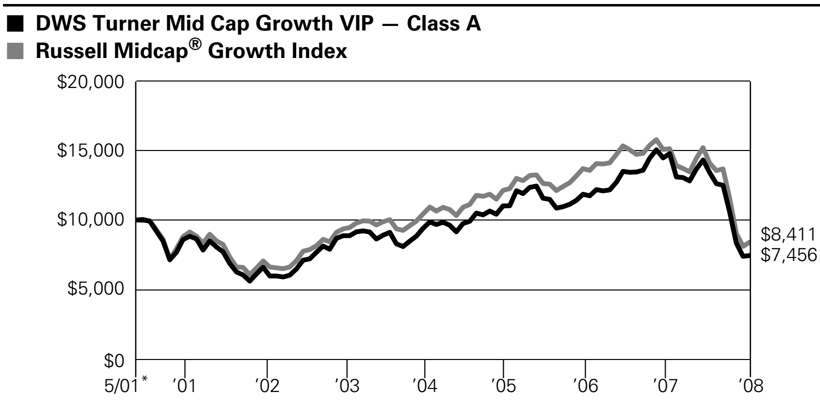
The total annual portfolio operating expense ratios, gross of any fee waivers or expense reimbursements, as stated in the fee table of the prospectus dated May 1, 2008 are 0.91% and 1.16% for Class A and Class B shares, respectively. Please see the Information About Your Portfolio's Expenses, the Financial 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, 2008.

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.

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 Turner Mid Cap Growth VIP from 5/1/2001 to 12/31/2008



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	$5,051	$6,766	$8,396	$7,456
	Average annual total return	–49.49%	–12.21%	–3.44%	–3.76%
Russell Midcap Growth Index	Growth of $10,000	$5,568	$6,865	$8,887	$8,411
	Average annual total return	–44.32%	–11.79%	–2.33%	–2.23%

DWS Turner Mid Cap Growth VIP		1-Year	3-Year	5-Year	Life of Class**
Class B	Growth of $10,000	$4,946	$6,573	$8,090	$10,836
	Average annual total return	–50.54%	–13.05%	–4.15%	1.24%
Russell Midcap Growth Index	Growth of $10,000	$5,568	$6,865	$8,887	$11,466
	Average annual total return	–44.32%	–11.79%	–2.33%	2.13%

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. 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, 2008 to December 31, 2008).

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, 2008

Actual Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$ 556.00	$ 541.70
Expenses Paid per $1,000*	$ 4.11	$ 4.84

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/08	$1,000.00	$1,000.00
Ending Account Value 12/31/08	$1,019.86	$1,018.85
Expenses Paid per $1,000*	$ 5.33	$ 6.34

* *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 366.*

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Turner Mid Cap Growth VIP	1.05%	1.25%

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

Faced with one of the most challenging markets that many have not seen in their lifetimes, DWS Turner Mid Cap Growth VIP, which emphasizes earnings growth, returned –49.49% during the period ending December 31, 2008 (Class A shares, unadjusted for contract charges). This trailed the results of the Russell Midcap® Growth Index, the Portfolio's benchmark, which returned –44.32% for the same period. The Portfolio underperformed in part due to relative weak results in the consumer discretionary, health care and technology sectors. Alternatively, the financial services sector contributed the most to results, helped in part by our general avoidance of credit-sensitive companies.

The consumer discretionary sector continued to be an area of concern, as most consumer-sensitive industries (apparel, gaming, restaurants) detracted meaningfully from relative results. Guess? Inc., the apparel retailer and wholesaler, was negatively affected by a beaten-down retail environment and was forced to lower its outlook for 2008. Casino operator Wynn Resorts Ltd. fell substantially, as its Las Vegas casino/hotel could not overcome a cautious consumer faced with numerous recessionary forces.

The health care sector was the second-largest detractor for the year, and our stock selection contributed to the Portfolio's underperformance versus the benchmark. Shares in Charles River Labs*, a drug discovery and development company, fell during the holding period, as the economy was negatively impacting its core client base: biotech and major pharmaceutical companies. United Therapeutics Corp., a biotechnology company, traded lower on the news of a failed trial for its oral version of the blood pressure drug Remodulin.

As was the case in 2007, the financial services sector again played a pivotal role in the equity markets this past year and is largely responsible for the current economic condition. From a Portfolio perspective, our stance on avoiding credit-sensitive companies continues to be the key to the relative outperformance of the financial services sector of the Portfolio. Two areas of the sector that had a positive impact on performance were insurance brokers (AON Corp.) and savings banks (Hudson City Bancorp, Inc.).

Christopher K. McHugh — Tara Hedlund — Jason Schrotberger

Lead Manager — *Portfolio Managers,* Turner Investment Partners, Inc., Subadvisor to the Portfolio

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 into an index.

* *Not held in the Portfolio as of December 31, 2008.*

Portfolio management market commentary is as of December 31, 2008, 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. Current and future portfolio holdings are subject to risk.

Portfolio Summary

DWS Turner Mid Cap Growth VIP

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/08**	**12/31/07**
Common Stocks	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/08**	**12/31/07**
Consumer Discretionary	22%	11%
Information Technology	21%	23%
Industrials	13%	19%
Health Care	13%	12%
Financials	10%	9%
Energy	8%	12%
Materials	6%	5%
Consumer Staples	3%	4%
Telecommunication Services	2%	2%
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 199. A complete list of the portfolio holdings of the portfolio is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

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 Turner Mid Cap Growth VIP

	Shares	Value ($)
Common Stocks 100.3%		
Consumer Discretionary 21.7%		
Diversified Consumer Services 2.8%		
Apollo Group, Inc. "A"*	12,030	921,739
ITT Educational Services, Inc.* (a)	4,610	437,858
		1,359,597
Hotels Restaurants & Leisure 5.4%		
Darden Restaurants, Inc.	13,980	393,956
WMS Industries, Inc.* (a)	24,675	663,758
Wynn Resorts Ltd.* (a)	16,340	690,528
Yum! Brands, Inc.	28,160	887,040
		2,635,282
Household Durables 3.0%		
Pulte Homes, Inc. (a)	72,930	797,125
Toll Brothers, Inc.* (a)	30,500	653,615
		1,450,740
Media 0.8%		
Cablevision Systems Corp. (New York Group) "A" (a)	22,000	**370,480**
Multiline Retail 2.5%		
Dollar Tree, Inc.* (a)	7,860	328,548
Kohl's Corp.*	25,300	915,860
		1,244,408
Specialty Retail 5.9%		
GameStop Corp. "A"*	27,850	603,231
Guess?, Inc.	32,860	504,401
Staples, Inc.	28,520	511,078
The Sherwin-Williams Co. (a)	10,700	639,325
Urban Outfitters, Inc.* (a)	39,860	597,103
		2,855,138
Textiles, Apparel & Luxury Goods 1.3%		
Deckers Outdoor Corp.* (a)	7,860	**627,778**
Consumer Staples 3.2%		
Beverages 0.6%		
Hansen Natural Corp.*	9,320	**312,500**
Household Products 1.3%		
Church & Dwight Co., Inc.	2,630	147,595
Clorox Co.	8,400	466,704
		614,299
Personal Products 1.3%		
Alberto-Culver Co.	25,940	**635,789**
Energy 8.2%		
Energy Equipment & Services 3.0%		
Cameron International Corp.*	26,150	536,075
Dresser-Rand Group, Inc.*	21,650	373,463
Smith International, Inc.	24,350	557,371
		1,466,909
Oil, Gas & Consumable Fuels 5.2%		
CONSOL Energy, Inc.	27,360	781,949
Goodrich Petroleum Corp.* (a)	17,560	525,922
Range Resources Corp.	16,234	558,287
Southwestern Energy Co.*	23,140	670,366
		2,536,524

	Shares	Value ($)
Financials 10.3%		
Capital Markets 4.9%		
BlackRock, Inc. (a)	2,140	287,081
Lazard Ltd. "A" (a)	19,020	565,655
Northern Trust Corp.	13,550	706,497
T. Rowe Price Group, Inc. (a)	23,500	832,840
		2,392,073
Diversified Financial Services 1.2%		
IntercontinentalExchange, Inc.*	7,050	**581,202**
Insurance 2.0%		
Aon Corp.	11,950	545,876
W.R. Berkley Corp.	14,820	459,420
		1,005,296
Thrifts & Mortgage Finance 2.2%		
Hudson City Bancorp., Inc.	39,180	625,313
People's United Financial, Inc.	24,070	429,168
		1,054,481
Health Care 12.5%		
Biotechnology 2.8%		
Alexion Pharmaceuticals, Inc.* (a)	17,380	628,982
Myriad Genetics, Inc.* (a)	6,170	408,824
United Therapeutics Corp.* (a)	5,610	350,906
		1,388,712
Health Care Equipment & Supplies 1.6%		
DENTSPLY International, Inc. (a)	13,130	370,791
Intuitive Surgical, Inc.* (a)	3,070	389,859
		760,650
Health Care Providers & Services 5.4%		
Aetna, Inc.	12,740	363,090
DaVita, Inc.*	9,700	480,829
Express Scripts, Inc.*	20,090	1,104,548
Henry Schein, Inc.* (a)	9,630	353,325
Omnicare, Inc.	11,200	310,912
		2,612,704
Life Sciences Tools & Services 1.8%		
Covance, Inc.* (a)	7,380	339,701
Illumina, Inc.* (a)	21,400	557,470
		897,171
Pharmaceuticals 0.9%		
Allergan, Inc.	10,880	**438,682**
Industrials 12.9%		
Aerospace & Defense 1.1%		
Precision Castparts Corp.	9,350	**556,138**
Air Freight & Logistics 1.5%		
C.H. Robinson Worldwide, Inc.	13,110	**721,443**
Airlines 1.1%		
Continental Airlines, Inc. "B"* (a)	28,510	**514,891**
Commercial Services & Supplies 3.4%		
Clean Harbors, Inc.*	6,170	391,425
Covanta Holding Corp.* (a)	22,360	491,025
Stericycle, Inc.* (a)	14,550	757,764
		1,640,214

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

	Shares	Value ($)
Construction & Engineering 1.6%		
Jacobs Engineering Group, Inc.*	7,930	381,433
Quanta Services, Inc.* (a)	20,500	405,900
		787,333
Electrical Equipment 1.5%		
AMETEK, Inc.	13,780	416,294
First Solar, Inc.* (a)	2,270	313,169
		729,463
Professional Services 2.0%		
FTI Consulting, Inc.* (a)	7,420	331,526
Robert Half International, Inc. (a)	30,600	637,092
		968,618
Road & Rail 0.7%		
J.B. Hunt Transport Services, Inc. (a)	13,130	**344,925**
Information Technology 21.2%		
Communications Equipment 4.0%		
F5 Networks, Inc.* (a)	31,500	720,090
Juniper Networks, Inc.*	58,070	1,016,806
Polycom, Inc.*	15,640	211,296
		1,948,192
Computers & Peripherals 0.8%		
SanDisk Corp.* (a)	37,570	**360,672**
Internet Software & Services 1.0%		
Omniture, Inc.* (a)	28,500	303,240
VistaPrint Ltd.* (a)	10,830	201,546
		504,786
Semiconductors & Semiconductor Equipment 9.3%		
Altera Corp. (a)	42,580	711,512
Atheros Communications* (a)	26,330	376,782
Broadcom Corp. "A"*	55,180	936,405
Cavium Networks, Inc.* (a)	25,400	266,954
KLA-Tencor Corp. (a)	23,960	522,088
Lam Research Corp.* (a)	33,290	708,411
PMC-Sierra, Inc.* (a)	91,200	443,232
Varian Semiconductor Equipment Associates, Inc.* (a)	31,320	567,519
		4,532,903
Software 6.1%		
Activision Blizzard, Inc.*	61,860	534,471
Adobe Systems, Inc.*	15,810	336,595
Citrix Systems, Inc.*	21,020	495,441
Intuit, Inc.*	18,960	451,058
McAfee, Inc.*	33,440	1,156,021
		2,973,586
Materials 5.7%		
Chemicals 2.7%		
Airgas, Inc. (a)	11,640	453,844
Ecolab, Inc.	15,050	529,007
Sigma-Aldrich Corp. (a)	7,900	333,696
		1,316,547
Construction Materials 0.8%		
Martin Marietta Materials, Inc. (a)	4,020	**390,262**
Containers & Packaging 1.0%		
Pactiv Corp.*	20,350	**506,308**
Metals & Mining 1.2%		
Cliffs Natural Resources, Inc.	9,200	235,612
Compass Minerals International, Inc. (a)	5,700	334,362
		569,974
Telecommunication Services 2.4%		
Wireless Telecommunication Services		
American Tower Corp. "A"*	20,190	591,971
MetroPCS Communications, Inc.* (a)	38,040	564,894
		1,156,865
Utilities 2.2%		
Electric Utilities 1.0%		
PPL Corp.	17,020	**522,344**
Gas Utilities 1.2%		
Questar Corp.	17,480	**571,420**
Total Common Stocks (Cost $57,490,443)		**48,857,299**

Securities Lending Collateral 28.1%

	Shares	Value ($)
Daily Assets Fund Institutional, 1.69% (b) (c) (Cost $13,671,806)	13,671,806	**13,671,806**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $71,162,249)†	128.4	**62,529,105**
Other Assets and Liabilities, Net	(28.4)	**(13,836,700)**
Net Assets	100.0	**48,692,405**

* *Non-income producing security.*

† *The cost for federal income tax purposes was $72,195,203. At December 31, 2008, net unrealized depreciation for all securities based on tax cost was $9,666,098. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,245,475 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $12,911,573.*

(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, 2008 amounted to $13,623,057, which is 28.0% 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.*

Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2008 in valuing the Portfolio's investments. For information on the Portfolio's policy regarding the valuation of investments and of the valuation inputs, and the aggregate levels used in the table below, please refer to the Security Valuation section of Note A in the accompanying Notes to the Financial Statements.

Valuation Inputs	Investments in Securities
Level 1	$ 62,529,105
Level 2	—
Level 3	—
Total	**$ 62,529,105**

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

Financial Statements

Statement of Assets and Liabilities

as of December 31, 2008

Assets		
Investments:		
Investments in securities, at value (cost $57,490,443) — including $13,623,057 of securities loaned	$	48,857,299
Investment in Daily Assets Fund Institutional (cost $13,671,806)*		13,671,806
Total investments, at value (cost $71,162,249)		62,529,105
Dividends receivable		25,366
Interest receivable		26,967
Other assets		2,905
Total assets		62,584,343

Liabilities		
Payable upon return of securities loaned		13,671,806
Cash overdraft		47,692
Payable for Portfolio shares redeemed		8,249
Accrued management fee		32,328
Other accrued expenses and payables		131,863
Total liabilities		13,891,938
Net assets, at value	**$**	**48,692,405**

Net Assets Consist of		
Accumulated net investment loss		(5,550)
Net unrealized appreciation (depreciation) on investments		(8,633,144)
Accumulated net realized gain (loss)		(17,538,318)
Paid-in capital		74,869,417
Net assets, at value	**$**	**48,692,405**
Class A		
Net Asset Value, offering and redemption price per share ($48,686,132 ÷ 9,629,198 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.06**
Class B		
Net Asset Value, offering and redemption price per share ($6,273 ÷ 1,306 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**4.80**

* *Represents collateral on securities loaned.*

Statement of Operations

for the year ended December 31, 2008

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $3,576)	$	540,150
Interest — Cash Management QP Trust		36,830
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		277,363
Total Income		854,343
Expenses:		
Management fee		737,881
Administration fee		59,597
Services to shareholders		363
Custodian and accounting fees		36,384
Distribution service fee (Class B)		3,805
Record keeping fees (Class B)		1,485
Professional fees		68,759
Trustees' fees and expenses		34,451
Reports to shareholders and shareholder meeting		64,427
Other		11,034
Total expenses before expense reductions		1,018,186
Expense reductions		(22,326)
Total expenses after expense reductions		995,860
Net investment income (loss)		**(141,517)**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(17,418,447)
Change in net unrealized appreciation (depreciation) on investments		(43,114,819)
Net gain (loss)		**(60,533,266)**
Net increase (decrease) in net assets resulting from operations	**$**	**(60,674,783)**

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, 2008	2007
Operations:		
Net investment income (loss)	$ (141,517)	$ (528,074)
Net realized gain (loss)	(17,418,447)	23,736,292
Change in net unrealized appreciation (depreciation)	(43,114,819)	7,277,206
Net increase (decrease) in net assets resulting from operations	(60,674,783)	30,485,424
Distributions to shareholders from:		
Net realized gains:		
Class A	(22,224,763)	(9,828,253)
Class B	(923,048)	(2,183,905)
Tax return of capital:		
Class A	(10,487)	—
Class B	(436)	—
Total distributions	(23,158,734)	(12,012,158)
Portfolio share transactions:		
Class A		
Proceeds from shares sold	13,243,891	17,681,217
Reinvestment of distributions	22,235,250	9,828,253
Cost of shares redeemed	(33,004,175)	(33,144,770)
Net increase (decrease) in net assets from Class A share transactions	2,474,966	(5,635,300)
Class B		
Proceeds from shares sold	232,736	706,509
Reinvestment of distributions	923,484	2,183,905
Cost of shares redeemed	(5,170,159)	(24,376,442)
Net increase (decrease) in net assets from Class B share transactions	(4,013,939)	(21,486,028)
Increase (decrease) in net assets	(85,372,490)	(8,648,062)
Net assets at beginning of period	134,064,895	142,712,957
Net assets at end of period (including accumulated net investment loss of $5,550 and $4,298, respectively)	**$ 48,692,405**	**$ 134,064,895**

Other Information		
Class A		
Shares outstanding at beginning of period	10,261,710	10,696,292
Shares sold	1,439,377	1,504,234
Shares issued to shareholders in reinvestment of distributions	2,558,716	950,508
Shares redeemed	(4,630,605)	(2,889,324)
Net increase (decrease) in Class A shares	(632,512)	(434,582)
Shares outstanding at end of period	**9,629,198**	**10,261,710**
Class B		
Shares outstanding at beginning of period	432,386	2,410,110
Shares sold	21,851	61,336
Shares issued to shareholders in reinvestment of distributions	109,548	215,587
Shares redeemed	(562,479)	(2,254,647)
Net increase (decrease) in Class B shares	(431,080)	(1,977,724)
Shares outstanding at end of period	**1,306**	**432,386**

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

Financial Highlights

Class A

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$12.55**	**$10.92**	**$11.02**	**$ 9.86**	**$ 8.88**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.01)	(.04)	(.01)	(.05)	(.07)
Net realized and unrealized gain (loss)	(5.28)	2.64	.77	1.21	1.05
Total from investment operations	(5.29)	2.60	.76	1.16	.98
Less distributions from:					
Net realized gains	(2.20)	(.97)	(.86)	—	—
Tax return of capital	(.00)*	—	—	—	—
Total distributions	(2.20)	(.97)	(.86)	—	—
Net asset value, end of period	**$ 5.06**	**$12.55**	**$10.92**	**$11.02**	**$ 9.86**
Total Return (%)	(49.49)[b]	25.75	6.52	11.76	11.04
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	49	129	117	122	118
Ratio of expenses before expense reductions (%)	1.03	.95	.97	1.11	1.19
Ratio of expenses after expense reductions (%)	1.00	.95	.97	1.11	1.19
Ratio of net investment income (loss) (%)	(.14)	(.36)	(.06)	(.56)	(.82)
Portfolio turnover rate (%)	156	133	148	151	174

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.*

Class B

Years Ended December 31,	2008	2007	2006	2005	2004
Selected Per Share Data					
Net asset value, beginning of period	**$12.26**	**$10.73**	**$10.88**	**$ 9.78**	**$ 8.84**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.07)	(.08)	(.05)	(.09)	(.10)
Net realized and unrealized gain (loss)	(5.19)	2.58	.76	1.19	1.04
Total from investment operations	(5.26)	2.50	.71	1.10	.94
Less distributions from:					
Net realized gains	(2.20)	(.97)	(.86)	—	—
Tax return of capital	(.00)*	—	—	—	—
Total distributions	(2.20)	(.97)	(.86)	—	—
Net asset value, end of period	**$ 4.80**	**$12.26**	**$10.73**	**$10.88**	**$ 9.78**
Total Return (%)	(50.54)[b]	25.13	6.21	11.25[b]	10.63
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.01	5	26	27	23
Ratio of expenses before expense reductions (%)	1.45	1.34	1.37	1.51	1.56
Ratio of expenses after expense reductions (%)	1.42	1.34	1.37	1.48	1.56
Ratio of net investment income (loss) (%)	(.55)	(.75)	(.46)	(.93)	(1.19)
Portfolio turnover rate (%)	156	133	148	151	174

a *Based on an average shares outstanding during the period.*

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

* *Amount is less than $.005.*

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 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"). Each Portfolio (except DWS Technology VIP) is classified as a diversified open-end management investment company. DWS Technology VIP is classified as a non-diversified, open-end management investment company.

Multiple Classes of Shares of Beneficial Interest. The Trust offers two classes of shares (Class A shares and Class B shares). Effective July 31, 2008, Class B shares of DWS Janus Growth & Income VIP were liquidated. 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 Rule 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.

Exchange traded funds ("ETFs") are valued at the most recent sale price or official closing price reported on the exchange on which the ETFs are traded most extensively. ETFs for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation.

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 one or more broker-dealers. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end 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.

Each Portfolio adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"), effective at the beginning of each Portfolio's fiscal year. FAS 157 establishes a three-tier hierarchy for measuring fair value and requires additional disclosure about the classification of fair value measurements.

Various inputs are used in determining the value of each Portfolio's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including each Portfolio's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Securities held by a money market fund are reflected as Level 2 because the securities are valued at amortized cost (which approximates fair value) and, accordingly, the inputs used to determine value are not quoted prices in an active market.

The aggregate value by input level, as of December 31, 2008, for each Portfolio's investments, as well as a reconciliation of Level 3 assets for which significant unobservable inputs were used in determining value, is included at the end of each Portfolio's Investment Portfolio.

New Accounting Pronouncement. In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 ("FAS 161"), "Disclosures about Derivative Instruments and Hedging Activities". FAS 161 requires enhanced disclosure about an entity's derivative and hedging activities including qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Management is currently reviewing the enhanced disclosure requirements for the adoption of FAS 161.

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. When the collateral falls below specified amounts, the lending agents will use their best efforts to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. 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. There may be risks of delay and costs in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. The Portfolio is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Interest Rate Swap Contracts. DWS Balanced 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 agrees 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 agrees 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 are 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 on the Statement of Operations. The value of the swap is adjusted daily based upon a price supplied by a board approved pricing vendor 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 pre-defined credit events for the reference entity. 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, to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer, or to hedge the risk of default on Portfolio securities. As a seller in the credit default swap contract, the Portfolio is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a US or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Portfolio. In return, the Portfolio receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Portfolio keeps the stream of payments with no payment obligations. The Portfolio may also buy credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Portfolio functions as the counterparty referenced above. This involves the risk that the contract may expire worthless. It also involves counterparty risk — that the seller may fail to satisfy its payment obligations to the Portfolio with the occurrence of a credit event. 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 reference entities for all outstanding credit default swap contracts sold by the Portfolio.

Credit default swap contracts are marked to market daily based upon quotations from a board approved pricing vendor 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 quarterly payments 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.

The Portfolio adopted FASB Staff Position (FSP) FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No.133 and FASB Interpretation No. 45", effective November 30, 2008. The amendments to FAS 133 include required disclosure for (i) the nature and terms of the credit derivative, reasons for entering into the credit derivative, the events or circumstances that would require the seller to perform under the credit derivative, and the current status of the payment/performance risk of the credit derivative, (ii) the undiscounted maximum potential amount of future payments the seller could be required to make under the credit derivative, (iii) the fair value of the credit derivative, and (iv) the nature of any recourse provisions and assets held either as collateral or by third parties.

The amendments to FIN 45 require additional disclosure about the current status of the payment/performance risk of a guarantee. All changes to accounting policies have been made in accordance with the FSP and incorporated for the current period in this note and at the end of the Portfolio's Investment Portfolio.

Total Return Swap Contracts. Total return swaps involve commitments to pay interest in exchange for a market-linked return based on a notional amount. DWS Strategic Income VIP may enter into total return swap transactions to hedge against market and interest rate risk or to enhance returns. To the extent the total return of the reference security or index underlying the total return swap exceeds or falls short of the offsetting interest rate obligation, the Portfolio will receive a payment or make a payment to the counterparty, respectively. Certain risks may arise when entering into swap transactions including counterparty default, liquidity or unfavorable changes in the value of underlying reference security or index. Payments received or made at the end of each measurement period are recorded as realized gain or loss on the Statement of Operations. The value of the swap is adjusted daily based upon a price supplied by a board approved pricing vendor and the change in value is recorded as unrealized appreciation or depreciation.

Options. An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. 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. DWS Balanced VIP and DWS Strategic Income VIP may also enter into futures contracts as part of each Portfolio's global tactical asset allocation strategy.

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. Risk of loss may exceed amounts recognized on the Statement of Assets and Liabilities.

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. DWS Balanced VIP and DWS Strategic Income VIP may enter into forward currency contracts as part of each Portfolio's global tactical asset allocation strategy.

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.

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, 2008, 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 ($)	Expiration Date	Capital Loss Carryforward Utilized ($)	Capital Loss Carryforward Expired ($)
DWS Balanced VIP	1,789,000	12/31/2010	—	—
	1,366,000	12/31/2011	—	—
	21,426,000	12/31/2016	—	—
DWS Blue Chip VIP	26,695,000	12/31/2016	—	—
DWS Core Fixed Income VIP	3,813,000	12/31/2014	—	—
	50,000	12/31/2015	—	—
	6,143,000	12/31/2016	—	—

Portfolio	Capital Loss Carryforward ($)	Expiration Date	Capital Loss Carryforward Utilized ($)	Capital Loss Carryforward Expired ($)
DWS Dreman High Return Equity VIP	68,443,000	12/31/2016	—	—
DWS Dreman Small Mid Cap Value VIP	40,231,000	12/31/2016	—	—
DWS Global Thematic VIP	42,028,000	12/31/2016	—	—
DWS Government & Agency Securities VIP	930,000	12/31/2014	421,000	—
	924,000	12/31/2015	—	—
DWS High Income VIP	22,935,000	12/31/2009	—	16,113,000
	55,108,000	12/31/2010	—	—
	13,877,000	12/31/2011	—	—
	3,844,000	12/31/2014	—	—
	858,000	12/31/2015	—	—
	17,301,000	12/31/2016	—	—
DWS International Select Equity VIP	32,933,000	12/31/2016	—	—
DWS Janus Growth & Income VIP	8,636,000	12/31/2016	—	—
DWS Large Cap Value VIP	17,185,000	12/31/2016	—	—
DWS Mid Cap Growth VIP	20,154,000	12/31/2011	—	—
	936,000	12/31/2016	—	—
DWS Small Cap Growth VIP	11,291,000	12/31/2009	—	—
	71,888,000	12/31/2010	—	—
	4,155,000	12/31/2011	—	—
	8,113,000	12/31/2016	—	—
DWS Strategic Income VIP	1,611,000	12/31/2016	—	—
DWS Technology VIP	73,057,000	12/31/2009	—	—
	93,499,000	12/31/2010	—	—
	71,516,000	12/31/2011	—	—
	13,148,000	12/31/2016	—	—
DWS Turner Mid Cap Growth VIP	6,753,000	12/31/2016	—	—

In addition, from November 1, 2008 through December 31, 2008, 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, 2009.

Portfolio	
DWS Balanced VIP	$ 20,377,000
DWS Blue Chip VIP	12,172,000
DWS Core Fixed Income VIP	14,342,000
DWS Davis Venture Value VIP	1,077,000
DWS Dreman High Return Equity VIP	78,628,000
DWS Dreman Small Mid Cap Value VIP	22,331,000
DWS Global Thematic VIP	12,260,000
DWS Government & Agency Securities VIP	4,625,000
DWS High Income VIP	6,542,000
DWS International Select Equity VIP	15,109,000
DWS Janus Growth & Income VIP	7,200,000
DWS Large Cap Value VIP	8,279,000
DWS Mid Cap Growth VIP	3,503,000
DWS Small Cap Growth VIP	14,538,000
DWS Strategic Income VIP	1,428,000
DWS Technology VIP	6,328,000
DWS Turner Mid Cap Growth VIP	9,753,000

The Portfolios have reviewed the tax positions for the open tax years as of December 31, 2008 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 remain 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. Net investment income of DWS Money Market VIP is declared as a daily dividend and is distributed to shareholders monthly. DWS Money Market VIP may take into account capital gains and losses in its daily dividend declarations. DWS Money Market VIP may also make additional distributions for tax purposes if necessary.

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, 2008, 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	11,623,050	—	(24,581,000)	(51,362,547)
DWS Blue Chip VIP	1,995,128	—	(26,695,000)	(34,966,453)
DWS Core Fixed Income VIP	11,325,686	—	(10,006,000)	(34,741,950)
DWS Davis Venture Value VIP	2,441,329	11,752,162	—	(6,713,748)
DWS Dreman High Return Equity VIP	12,689,174	—	(68,443,000)	(37,565,747)
DWS Dreman Small Mid Cap Value VIP	4,331,470	—	(40,231,000)	(85,237,785)
DWS Global Thematic VIP	929,329	—	(42,028,000)	(22,227,008)
DWS Government & Agency Securities VIP	9,857,609	—	(1,854,000)	4,584,630
DWS High Income VIP	18,558,806	—	(113,923,000)	(64,273,900)
DWS International Select Equity VIP	5,138,636	—	(32,933,000)	(23,858,882)
DWS Janus Growth & Income VIP	1,300,772	—	(8,636,000)	(16,250,821)
DWS Large Cap Value VIP	2,810,754	—	(17,185,000)	(22,320,016)
DWS Mid Cap Growth VIP	—	—	(21,090,000)	(5,617,128)
DWS Small Cap Growth VIP	—	—	(95,447,000)	(25,059,121)
DWS Strategic Income VIP	3,657,462	—	(1,611,000)	(8,970,305)
DWS Technology VIP	—	—	(251,220,000)	(23,491,040)
DWS Turner Mid Cap Growth VIP	—	—	(6,753,000)	(9,666,098)

In addition, the tax character of distributions paid by the Portfolios is summarized as follows:

	Distributions from ordinary income ($)*		Distributions from long-term capital gains ($)		Tax return of capital ($)	
	Years Ended December 31,		Years Ended December 31,		Years Ended December 31,	
Portfolio	2008	2007	2008	2007	2008	2007
DWS Balanced VIP	17,874,817	19,822,898	—	—	—	—
DWS Blue Chip VIP	22,693,300	29,126,324	18,303,778	14,583,277	—	—
DWS Core Fixed Income VIP	16,737,934	15,592,450	—	—	—	—
DWS Davis Venture Value VIP	7,868,190	2,795,861	31,468,257	5,303,652	—	—
DWS Dreman High Return Equity VIP	45,076,905	15,617,453	96,459,670	9,463,569	—	—
DWS Dreman Small Mid Cap Value VIP	41,897,747	29,285,554	134,320,787	68,746,041	—	—
DWS Global Thematic VIP	21,140,061	14,911,083	19,678,184	12,511,360	—	—
DWS Government & Agency Securities VIP	10,257,168	11,682,544	—	—	—	—
DWS High Income VIP	24,630,815	28,464,473	—	—	—	—
DWS International Select Equity VIP	31,101,295	11,746,411	29,324,473	24,138,562	—	—

Portfolio	Distributions from ordinary income ($)*		Distributions from long-term capital gains ($)		Tax return of capital ($)	
	Years Ended December 31, 2008	2007	Years Ended December 31, 2008	2007	Years Ended December 31, 2008	2007
DWS Janus Growth & Income VIP	1,526,587	1,145,877	11,064,755	—	—	—
DWS Large Cap Value VIP	16,375,766	7,889,590	40,280,218	8,775,628	—	—
DWS Money Market VIP	10,231,661	17,550,147	—	—	—	—
DWS Strategic Income VIP	7,058,174	6,882,054	908,461	—	—	—
DWS Turner Mid Cap Growth VIP	5,018,188	—	18,129,623	12,012,158	10,923	—

* *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 Portfolios' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Portfolios that have not yet been made. However, based on experience, the Portfolios expect the risk of loss to be remote.

Real Estate Investment Trusts. DWS Balanced VIP and DWS Dreman Small Mid Cap Value VIP periodically recharacterize distributions received from a Real Estate Investment Trust ("REIT") investment based on information provided by the REIT into the following categories: ordinary income, long-term and short-term capital gains, and return of capital. If information is not available timely from a REIT, the recharacterization will be estimated and a recharacterization will be made in the following year when such information becomes available. Distributions received from REITs in excess of income are recorded as either a reduction of cost of investments or realized gains. The Portfolios distinguish between dividends on a tax basis and a financial reporting basis and only distributions in excess of tax basis earnings and profits are reported in the financial statements as a tax return of capital.

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, 2008, purchases and sales of investment transactions (excluding short-term investments) were as follows:

Portfolio	Purchases ($)	Sales ($)
DWS Balanced VIP excluding US Treasury Obligations	813,891,432	883,115,897
US Treasury Obligations	250,216,900	254,136,016
DWS Blue Chip VIP	224,979,664	283,841,847
DWS Core Fixed Income VIP excluding US Treasury Obligations	110,882,243	138,529,428
US Treasury Obligations	341,692,001	368,373,444
DWS Davis Venture Value VIP	40,237,723	127,433,637
DWS Dreman High Return Equity VIP	165,789,364	344,342,570
DWS Dreman Small Mid Cap Value VIP	185,488,147	262,937,061
DWS Global Thematic VIP	271,826,694	292,124,323
DWS Government & Agency Securities VIP excluding US Treasury Obligations	1,274,131,660	1,282,924,652
US Treasury Obligations	60,202,794	54,014,477
DWS High Income VIP	75,675,370	116,290,066
DWS International Select Equity VIP	231,765,481	270,812,787

Portfolio	Purchases ($)	Sales ($)
DWS Janus Growth & Income VIP excluding US Treasury Obligations	67,764,101	107,157,122
US Treasury Obligations	6,019,069	—
DWS Large Cap Value VIP	173,390,197	193,408,495
DWS Mid Cap Growth VIP	29,333,339	41,619,618
DWS Small Cap Growth VIP	82,223,324	113,783,168
DWS Strategic Income VIP excluding US Treasury Obligations	119,878,953	118,622,071
US Treasury Obligations	88,088,711	100,086,294
DWS Technology VIP	75,845,500	108,429,050
DWS Turner Mid Cap Growth VIP	153,306,708	178,375,782

For the year ended December 31, 2008, transactions for written options on interest rate swaps were as follows for DWS Strategic Income VIP:

	Contract Amount	Premiums
Outstanding, beginning of period	—	$ —
Options written	12,000,000	70,950
Outstanding, end of period	**12,000,000**	**$ 70,950**

For the year ended December 31, 2008, transactions for written options on securities were as follows for DWS Technology VIP:

	Number of Contracts	Premiums
Outstanding, beginning of period	—	$ —
Options written	2,161	225,556
Options closed	557	66,840
Options expired	1,604	158,716
Outstanding, end of period	**—**	**$ —**

C. Related Parties

Management Agreement. Under the Amended and Restated 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.

Prior to May 1, 2008, in addition to portfolio management services, the Advisor provided certain administrative services in accordance with the Investment Management Agreement. For the period from January 1, 2008 through April 30, 2008, 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%

Portfolio	Annual Management Fee Rate
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%
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%

Portfolio	Annual Management Fee Rate
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%
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%

Portfolio	Annual Management Fee Rate
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%
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%

Effective May 1, 2008, under the Amended and Restated Investment Management Agreement with the Advisor, the fees are 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	.370%
next $750 million	.345%
over $1 billion	.310%
DWS Blue Chip VIP	
$0–$250 million	.550%
next $750 million	.520%
next $1.5 billion	.500%
next $2.5 billion	.480%
next $2.5 billion	.450%
next $2.5 billion	.430%
next $2.5 billion	.410%
over $12.5 billion	.390%
DWS Core Fixed Income VIP	
$0–$250 million	.500%
next $750 million	.470%
next $1.5 billion	.450%
next $2.5 billion	.430%
next $2.5 billion	.400%
next $2.5 billion	.380%
next $2.5 billion	.360%
over $12.5 billion	.340%

Portfolio	Annual Management Fee Rate
DWS Davis Venture Value VIP	
$0–$250 million	.865%
next $250 million	.840%
next $500 million	.815%
next $1.5 billion	.790%
over $2.5 billion	.765%
DWS Dreman High Return Equity VIP	
$0–$250 million	.665%
next $750 million	.635%
next $1.5 billion	.615%
next $2.5 billion	.595%
next $2.5 billion	.565%
next $2.5 billion	.555%
next $2.5 billion	.545%
over $12.5 billion	.535%
DWS Dreman Small Mid Cap Value 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	.540%
next $2.5 billion	.530%
over $12.5 billion	.520%
DWS Global Thematic VIP	
$0–$250 million	.915%
next $500 million	.865%
next $750 million	.815%
next $1.5 billion	.765%
over $3 billion	.715%
DWS Government & Agency Securities VIP	
$0–$250 million	.450%
next $750 million	.430%
next $1.5 billion	.410%
next $2.5 billion	.400%
next $2.5 billion	.380%
next $2.5 billion	.360%
next $2.5 billion	.340%
over $12.5 billion	.320%
DWS High Income VIP	
$0–$250 million	.500%
next $750 million	.470%
next $1.5 billion	.450%
next $2.5 billion	.430%
next $2.5 billion	.400%
next $2.5 billion	.380%
next $2.5 billion	.360%
over $12.5 billion	.340%

Portfolio	Annual Management Fee Rate
DWS International Select Equity VIP	
$0–$1.5 billion	.650%
next $1.75 billion	.635%
next $1.75 billion	.620%
over $5 billion	.605%
DWS Janus Growth & Income VIP	
$0–$250 million	.665%
next $750 million	.640%
next $1.5 billion	.615%
over $2.5 billion	.590%
DWS Mid Cap Growth VIP	
$0–$250 million	.665%
next $750 million	.635%
next $1.5 billion	.615%
next $2.5 billion	.595%
next $2.5 billion	.565%
next $2.5 billion	.555%
next $2.5 billion	.545%
over $12.5 billion	.535%
DWS Money Market VIP	
$0–$500 million	.285%
next $500 million	.270%
next $1.0 billion	.255%
over $2.0 billion	.240%
DWS Small Cap Growth VIP	
$0–$250 million	.550%
next $750 million	.525%
over $1 billion	.500%
DWS Strategic Income VIP	
$0–$250 million	.550%
next $750 million	.520%
next $1.5 billion	.500%
next $2.5 billion	.480%
next $2.5 billion	.450%
next $2.5 billion	.430%
next $2.5 billion	.410%
over $12.5 billion	.390%
DWS Technology VIP	
$0–$250 million	.665%
next $750 million	.635%
next $1.5 billion	.615%
next $2.5 billion	.595%
next $2.5 billion	.565%
next $2.5 billion	.555%
next $2.5 billion	.545%
over $12.5 billion	.535%
DWS Turner Mid Cap Growth VIP	
$0–$250 million	.715%
next $250 million	.700%
next $500 million	.685%
over $1 billion	.670%

The fee pursuant to the Investment Management Agreement is 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%

Aberdeen Asset Management Inc. ("AAMI") 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.

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, 2008 through April 30, 2008, the Advisor had contractually agreed to waive all or a portion of its fee 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) as follows:

Portfolio	Annual Rate
DWS Balanced VIP	
Class A	.51%
Class B	.89%
DWS Davis Venture Value VIP	
Class A	.86%
Class B	1.26%
DWS Government & Agency Securities VIP	
Class A	.63%
DWS Small Cap Growth VIP	
Class A	.72%
Class B	1.09%

For the period from January 1, 2008 through September 30, 2008, the Advisor had contractually agreed to waive all or a portion of its fee 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 Government & Agency Securities VIP	
Class B	1.04%
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%

For the period from January 1, 2008 through April 30, 2009, the Advisor has contractually agreed to waive all or a portion of its fee 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 Global Thematic VIP	
Class A	1.05%
Class B	1.45%
DWS Mid Cap Growth VIP	
Class A	.94%

For the period from January 1, 2008 through September 30, 2009, the Advisor has contractually agreed to waive all or a portion of its fee and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of the class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) as follows:

Portfolio	Annual Rate
DWS Mid Cap Growth VIP	
Class B	1.34%

For the period from January 1, 2008 through April 30, 2010, the Advisor has contractually agreed to waive all or a portion of its fee 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%
Class B	1.11%
DWS Money Market VIP	
Class A	.44%
Class B	.79%

For the period from April 28, 2008 through July 31, 2008, the Advisor had voluntarily agreed to waive its fee or and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of the class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) as follows:

Portfolio	Portfolio Annual Rate
DWS Janus Growth & Income VIP	
Class B	1.15%

For the period from May 1, 2008 through September 30, 2008, the Advisor had contractually agreed to waive all or a portion of its fee 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	.89%
Class B	1.29%
DWS Government & Agency Securities VIP	
Class A	.64%

For the period from May 1, 2008 through September 30, 2008, the Advisor had voluntarily agreed to waive their fees or and reimburse or pay certain operating expenses to the extent necessary to maintain the operating expenses of the class for the period (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) as follows:

Portfolio	Annual Rate
DWS Small Cap Growth VIP	
Class B	1.09%

For the period from October 1, 2008 through September 30, 2009, the Advisor has contractually agreed to waive all or a portion of its fee 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 Balanced VIP	
Class B	1.22%
DWS Blue Chip VIP	
Class B	1.25%
DWS Davis Venture Value VIP	
Class A	.88%
Class B	1.28%
DWS Government & Agency Securities VIP	
Class A	.65%
Class B	1.05%
DWS High Income VIP	
Class B	1.18%
DWS International Select Equity VIP	
Class B	1.40%
DWS Janus Growth & Income VIP	
Class A	.86%
DWS Large Cap Value VIP	
Class B	1.25%
DWS Small Cap Growth VIP	
Class B	1.41%
DWS Strategic Income VIP	
Class A	.82%
Class B	1.22%
DWS Technology VIP	
Class B	1.48%
DWS Turner Mid Cap Growth VIP	
Class B	1.34%

Accordingly, for the year ended December 31, 2008, 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	1,716,044	48,022	.39%
DWS Blue Chip VIP	1,059,617	—	.59%
DWS Core Fixed Income VIP	1,158,767	—	.54%
DWS Davis Venture Value VIP	2,136,001	377,471	.74%
DWS Dreman High Return Equity VIP	3,949,911	—	.68%
DWS Dreman Small Mid Cap Value VIP	2,646,998	—	.68%
DWS Global Thematic VIP	1,138,988	441,223	.58%
DWS Government & Agency Securities VIP	1,045,390	9,385	.48%
DWS High Income VIP	1,139,273	—	.54%
DWS International Select Equity VIP	1,244,991	—	.69%
DWS Janus Growth & Income VIP	897,800	—	.70%
DWS Large Cap Value VIP	1,214,541	—	.65%
DWS Mid Cap Growth VIP	252,379	51,613	.56%
DWS Money Market VIP	1,247,502	74,810	.30%
DWS Small Cap Growth VIP	733,616	29,376	.57%

Portfolio	Total Aggregated ($)	Waived ($)	Annual Effective Rate
DWS Strategic Income VIP	578,416	12,958	.57%
DWS Technology VIP	762,698	—	.70%
DWS Turner Mid Cap Growth VIP	737,881	16,056	.73%

In addition, for the year ended December 31, 2008, the Advisor waived record keeping expenses of Class B shares of each Portfolio as follows:

Portfolio	Waived ($)
DWS Dreman High Return Equity VIP	2,522
DWS Large Cap Value VIP	94
DWS Money Market VIP	129
DWS Small Cap Growth VIP	468

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to DWS Large Cap Value VIP. 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, 2008, DIMA received an Administration Fee of $186,852, of which $9,823 is unpaid.

Effective May 1, 2008, the Portfolios noted below entered into an Administrative Services Agreement with DIMA, pursuant to which the Advisor provides most administrative services to the Portfolios. For all services provided under the Administrative Services Agreement, the Portfolios pay DIMA an annual fee ("Administration Fee") of 0.10% of the Portfolios' average daily net assets, computed and accrued daily and payable monthly. For the period from May 1, 2008 through December 31, 2008, the Administration Fee was as follows:

Portfolio	Total Aggregated ($)	Unpaid at December 31, 2008 ($)
DWS Balanced VIP	267,755	25,322
DWS Blue Chip VIP	105,793	8,763
DWS Core Fixed Income VIP	129,626	12,210
DWS Davis Venture Value VIP	140,451	11,062
DWS Dreman High Return Equity VIP	331,580	25,687
DWS Dreman Small Mid Cap Value VIP	244,036	19,791
DWS Global Thematic VIP	72,094	5,163
DWS Government & Agency Securities VIP	143,349	18,783
DWS High Income VIP	131,305	11,897
DWS International Select Equity VIP	105,669	7,530
DWS Janus Growth & Income VIP	76,972	5,967
DWS Mid Cap Growth VIP	21,460	1,508
DWS Money Market VIP	263,770	35,124
DWS Small Cap Growth VIP	74,373	5,571
DWS Strategic Income VIP	62,261	6,079
DWS Technology VIP	66,748	5,183
DWS Turner Mid Cap Growth VIP	59,597	4,070

Service Provider Fees. DWS Investments Fund Accounting Corporation ("DIFA"), 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. DIFA receives no fee for its services to each Portfolio, other than the Portfolios noted below. In turn, DIFA has delegated certain fund accounting functions to a third-party service provider. Effective May 1, 2008, these fees are now paid under the Administrative Services Agreement. For the period from January 1, 2008 through April 30, 2008, DIFA received a fee for its services as follows:

Portfolio	Total Aggregated ($)
DWS Davis Venture Value VIP	37,943
DWS Dreman High Return Equity VIP	40,370
DWS Global Thematic VIP	69,550
DWS Janus Growth & Income VIP	25,585

Portfolio	Total Aggregated ($)
DWS Mid Cap Growth VIP	20,790
DWS Technology VIP	21,129
DWS Turner Mid Cap Growth VIP	22,504

DWS Investments Service Company ("DISC"), 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 DISC and DST Systems, Inc. ("DST"), DISC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DISC compensates DST out of the shareholder servicing fee it receives from each Portfolio. For the year ended December 31, 2008, the amounts charged to each Portfolio by DISC were as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Unpaid at December 31, 2008 ($)
DWS Balanced VIP Class A	221	221	—
DWS Balanced VIP Class B	47	—	7
DWS Blue Chip VIP Class A	361	—	73
DWS Blue Chip VIP Class B	22	—	3
DWS Core Fixed Income VIP Class A	259	—	116
DWS Core Fixed Income VIP Class B	82	—	13
DWS Davis Venture Value VIP Class A	163	163	—
DWS Davis Venture Value VIP Class B	26	—	26
DWS Dreman High Return Equity VIP Class A	604	—	129
DWS Dreman High Return Equity VIP Class B	243	243	—
DWS Dreman Small Mid Cap Value VIP Class A	706	—	155
DWS Dreman Small Mid Cap Value VIP Class B	289	—	72
DWS Global Thematic VIP Class A	488	488	—
DWS Global Thematic VIP Class B	112	—	25
DWS Government & Agency Securities VIP Class A	552	552	—
DWS Government & Agency Securities VIP Class B	71	—	17
DWS High Income VIP Class A	399	—	91
DWS High Income VIP Class B	33	—	7
DWS International Select Equity VIP Class A	152	—	45
DWS International Select Equity VIP Class B	23	—	6
DWS Janus Growth & Income VIP Class A	163	—	42
DWS Janus Growth & Income VIP Class B	40	10	6
DWS Large Cap Value VIP Class A	312	—	—
DWS Large Cap Value VIP Class B	60	60	—
DWS Mid Cap Growth VIP Class A	208	208	—
DWS Mid Cap Growth VIP Class B	26	—	7
DWS Money Market VIP Class A	711	711	—
DWS Money Market VIP Class B	52	52	—
DWS Small Cap Growth VIP Class A	387	151	236
DWS Small Cap Growth VIP Class B	—	—	—
DWS Strategic Income VIP Class A	147	—	147
DWS Strategic Income VIP Class B	38	6	6
DWS Technology VIP Class A	233	—	59
DWS Technology VIP Class B	142	—	37
DWS Turner Mid Cap Growth VIP Class A	93	93	—
DWS Turner Mid Cap Growth VIP Class B	41	—	6

Distribution Service Agreement. Under the Portfolios' Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") receives a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2008, the Distribution Service Fee was as follows:

Portfolio	Total Aggregated ($)	Waived ($)	Unpaid at December 31, 2008 ($)
DWS Balanced VIP	5,567	—	—
DWS Blue Chip VIP	8,244	—	188
DWS Core Fixed Income VIP	126,837	—	6,729
DWS Davis Venture Value VIP	17,012	—	454
DWS Dreman High Return Equity VIP	31,412	—	431
DWS Dreman Small Mid Cap Value VIP	83,016	—	4,823
DWS Global Thematic VIP	17,747	—	827
DWS Government & Agency Securities VIP	18,374	—	1,739
DWS High Income VIP	8,000	—	34
DWS International Select Equity VIP	11,230	—	20
DWS Janus Growth & Income VIP	3,511	—	—
DWS Large Cap Value VIP	6,151	—	—
DWS Mid Cap Growth VIP	1,412	—	4
DWS Money Market VIP	10,318	255	—
DWS Small Cap Growth VIP	4,740	1	125
DWS Strategic Income VIP	7,116	—	—
DWS Technology VIP	6,303	—	329
DWS Turner Mid Cap Growth VIP	3,805	—	139

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, 2008, the amount charged to each Portfolio by DIMA included in the Statement of Operations under "reports to shareholders and shareholder meeting" was as follows:

Portfolio	Amount ($)	Unpaid at December 31, 2008 ($)
DWS Balanced VIP	9,085	2,627
DWS Blue Chip VIP	7,848	2,198
DWS Core Fixed Income VIP	9,615	2,794
DWS Davis Venture Value VIP	7,271	1,707
DWS Dreman High Return Equity VIP	8,655	2,932
DWS Dreman Small Mid Cap Value VIP	9,568	2,764
DWS Global Thematic VIP	9,231	4,038
DWS Government & Agency Securities VIP	11,181	4,835
DWS High Income VIP	7,418	2,270
DWS International Select Equity VIP	6,038	1,896
DWS Janus Growth & Income VIP	4,627	3,720
DWS Large Cap Value VIP	13,957	2,999
DWS Mid Cap Growth VIP	7,548	2,319
DWS Money Market VIP	10,512	3,096
DWS Small Cap Growth VIP	4,350	3,044
DWS Strategic Income VIP	2,888	2,578
DWS Technology VIP	7,767	2,253
DWS Turner Mid Cap Growth VIP	8,870	2,802

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 and Vice Chairperson.

In connection with the board consolidation on April 1, 2008, of the two DWS Funds Boards of Trustees, certain Independent Board Members retired prior to their normal retirement date, and received a one-time retirement benefit. DIMA has agreed to reimburse the Portfolios for the cost of this benefit. During the period ended

December 31, 2008, each Portfolio paid its allocated portion, as follows, of the retirement benefit to the non-continuing Independent Board Members, and each Portfolio was reimbursed by DIMA for this payment.

Portfolio	Amount ($)
DWS Balanced VIP	24,750
DWS Blue Chip VIP	11,186
DWS Core Fixed Income VIP	12,990
DWS Davis Venture Value VIP	14,728
DWS Dreman High Return Equity VIP	37,816
DWS Dreman Small Mid Cap Value VIP	22,361
DWS Global Thematic VIP	7,091
DWS Government & Agency Securities VIP	10,950
DWS High Income VIP	11,933
DWS International Select Equity VIP	11,048
DWS Janus Growth & Income VIP	7,668
DWS Large Cap Value VIP	10,691
DWS Mid Cap Growth VIP	2,216
DWS Money Market VIP	19,388
DWS Small Cap Growth VIP	7,592
DWS Strategic Income VIP	5,355
DWS Technology VIP	6,311
DWS Turner Mid Cap Growth VIP	5,807

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

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, 2008, the Portfolios' custodian fee was reduced under the arrangement as follows:

Portfolio	Amount ($)
DWS Balanced VIP	4,543
DWS Blue Chip VIP	52
DWS Core Fixed Income VIP	890
DWS Davis Venture Value VIP	337
DWS Dreman High Return Equity VIP	794
DWS Dreman Small Mid Cap Value VIP	706

Portfolio	Amount ($)
DWS Government & Agency Securities VIP	182
DWS High Income VIP	2,091
DWS Janus Growth & Income VIP	295
DWS Large Cap Value VIP	519
DWS Mid Cap Growth VIP	68
DWS Money Market VIP	654
DWS Small Cap Growth VIP	158
DWS Strategic Income VIP	1,449
DWS Technology VIP	74
DWS Turner Mid Cap Growth VIP	370

G. Ownership of the Portfolios

At December 31, 2008, 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 42%, 23% and 16%. 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 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 58% and 36%. 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 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 42%, 38% and 12%. 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 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 74% and 23%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

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 62% and 27%. Four Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 27%, 21%, 14% and 12%.

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 49%, 25% and 13%. Four Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 40%, 17%, 17% and 11%.

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 65% and 30%. 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 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 43%, 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 97%.

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%, 30% 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 100%.

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 49%, 26% 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 100%.

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 70% and 29%.

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 42%, 29% and 17%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Portfolio, each owning 77% and 23%.

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 63% and 35%. 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 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 43%, 20% and 12%. 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 46%, 24% and 24%. 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 100%.

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 59% 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 92%.

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 81% and 19%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Portfolio, owning 100%.

H. Line of Credit

The Trust and other affiliated funds (the "Participants") share in a $490 million revolving credit facility provided by a syndication of banks. The Portfolios may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.35 percent. The facility borrowing limit for each Portfolio as a percentage 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%
DWS Technology VIP	5%
DWS Turner Mid Cap Growth VIP	33%

At December 31, 2008, DWS Core Fixed Income VIP had a $250,000 outstanding loan. Interest expense incurred on the borrowing was $8,024 for the year ended December 31, 2008. The average dollar amount of the borrowings was $1,772,936, the weighted average interest rate on these borrowings was 1.49% and the Portfolio had a loan outstanding for 109 days throughout the period.

At December 31, 2008, DWS Dreman High Return Equity VIP had a $450,000 outstanding loan. Interest expense incurred on the borrowing was $15,847 for the year ended December 31, 2008. The average dollar amount of the borrowings was $1,566,583, the weighted average interest rate on these borrowings was 1.82% and the Portfolio had a loan outstanding for 199 days throughout the period.

At December 31, 2008, DWS Large Cap Value VIP had a $750,000 outstanding loan. Interest expense incurred on the borrowing was $197 for the year ended December 31, 2008. The average dollar amount of the borrowings was $520,588, the weighted average interest rate on these borrowings was 0.80% and the Portfolio had a loan outstanding for 17 days throughout the period.

I. Payments Made by Affiliates

During the year ended December 31, 2008, the Advisor fully reimbursed DWS Balanced VIP, DWS High Income VIP and DWS Strategic Income VIP $11,599, $6 and $1,022, 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, 2008, the Advisor fully reimbursed DWS International Select Equity VIP $354,782 for losses incurred on trades executed incorrectly.

J. Participation in the Treasury's Temporary Guarantee Program

The U.S. Department of the Treasury (the "Treasury") has established a Temporary Guarantee Program for Money Market Funds (the "Program"). DWS Money Market VIP is participating in the Program.

The Program is designed to protect the value of accounts in the Portfolio as of the close of business on September 19, 2008. According to the terms of the Program, any investment made by a shareholder after September 19, 2008 in excess of the amount held in the account as of the close of business on that date will not be covered by the Program. Any purchase of shares of the Portfolio for an account opened after September 19, 2008 will also not be covered under the Program. The Program guarantee will apply to the lesser of (i) the number of shares held in an account as of the close of business on September 19, 2008, or (ii) the number of shares held in the account on the date the Program guarantee is triggered. Subject to certain conditions and limitations, the Program guarantee is triggered if the Portfolio's net asset value falls below $0.995 and the Portfolio is liquidated. Guarantee payments under the Program will not exceed the amount available within the Treasury's Exchange Stabilization Fund ("ESF") on the date of payment. As of the date of this report, ESF assets are approximately $52 billion. The Treasury and the Secretary of the Treasury have the authority to use assets from the ESF for purposes other than those of the Program.

The Portfolio bears the expenses of participating in the Program. The expense is determined by the product of (i) the number of shares outstanding of each class as of September 19, 2008 valued at $1.00; and (ii) the applicable Program participation fee rate, which is based upon the market-based net asset value outstanding of each share class as of September 19, 2008. For the initial period ending December 18, 2008, the Program participation fee was equal to 0.010%. For the coverage under the Program beginning on December 19, 2008 and ending on April 30, 2009, the Program participation fee is equal to 0.015%. This expense is being amortized over the length of the participation in the Program and is included in "Other" expense on the Statement of Operations. Through December 31, 2008, the Portfolio has accrued $45,679. The Program is set to terminate on April 30, 2009, unless extended by the Treasury. The Treasury may extend the program through the close of business on September 18, 2009. If the Program is extended beyond April 30, 2009, the Portfolio would need to pay an additional fee and there can be no assurances that the Portfolio would continue to participate. This expense is borne by the Portfolio without regard to any expense limitation currently in effect for the Portfolio.

Neither the Portfolio nor Deutsche Investment Management Americas Inc., the Portfolio's investment advisor, are in any manner approved, endorsed, sponsored or authorized by the Treasury.

K. Subsequent Event

The Board of Trustees has approved the termination of AAMI as the subadvisor for DWS Core Fixed Income VIP. Effective on or about February 27, 2009, DIMA will assume all day-to-day advisory responsibilities for the Portfolio that were previously delegated to AAMI.

L. Mergers

On November 21, 2008, the Board of Trustees of the Portfolios approved, in principle, the mergers of the DWS Davis Venture Value VIP (the "Acquired Portfolio") into the DWS Large Cap Value VIP and DWS Janus Growth & Income VIP (the "Acquired Portfolio") into the DWS Capital Growth VIP.

Completion of the mergers is subject to a number of conditions, including approval by shareholders of the Acquired Portfolios at the shareholder meeting expected to be held on or about April 20, 2009.

The Board of Trustees of the Trust has also approved the combination of the Class B shares of DWS Balanced VIP, DWS International Select Equity VIP, DWS Mid Cap Growth VIP, DWS Money Market VIP, DWS Small Cap Growth VIP, DWS Strategic Income VIP and DWS Turner Mid Cap Growth VIP into the Class A shares of the same Portfolio. The combinations are scheduled to become effective on or about March 6, 2009 (effective February 3, 2009 for the DWS Money Market VIP).

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 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 and DWS Turner Mid Cap Growth VIP, eighteen of the portfolios constituting the DWS Variable Series II (the "Trust"), including the investment portfolios, as of December 31, 2008, 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, 2008, 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, 2008, 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 13, 2009

Ernst + Young LLP

Tax Information

(Unaudited)

The following Portfolios paid distributions from net long-term capital gains during the year ended December 31, 2008 as follows:

Portfolio	Distribution Per Share ($)	% Representing 15% Rate Gains
DWS Blue Chip VIP	1.14	100
DWS Davis Venture Value VIP	1.47	100
DWS Dreman High Return Equity VIP	1.77	100
DWS Dreman Small Mid Cap Value VIP	5.64	100
DWS Global Thematic VIP	1.98	100
DWS International Select Equity VIP	2.04	100
DWS Janus Growth & Income VIP	.84	100
DWS Large Cap Value VIP	3.43	100
DWS Strategic Income VIP	.10	100
DWS Turner Mid Cap Growth VIP	1.72	100

The following Portfolio designated as capital gain dividends for their year ended December 31, 2008:

Portfolio	Capital Gain ($)	% Representing 15% Rate Gains
DWS Davis Venture Value VIP	12,927,000	100

For corporate shareholders, the following percentage of income dividends paid during the following Portfolios' fiscal year ended December 31, 2008 qualified for the dividends received deduction:

Portfolio	Dividends Received %
DWS Balanced VIP	20
DWS Blue Chip VIP	84
DWS Davis Venture Value VIP	89
DWS Dreman High Return Equity VIP	88
DWS Dreman Small Mid Cap Value VIP	83
DWS Global Thematic VIP	22
DWS Janus Growth & Income VIP	35
DWS Large Cap Value VIP	93

DWS Global Thematic VIP paid foreign taxes of $158,191 and earned $659,182 of foreign source income during the year ended December 31, 2008. Pursuant to section 853 of the Internal Revenue Code, the Portfolio designates $0.01 per share as foreign taxes paid and $0.06 per share as income earned from foreign sources for the year ended December 31, 2008.

DWS International Select Equity VIP paid foreign taxes of $454,368 and earned $5,467,917 of foreign source income during the year ended December 31, 2008. Pursuant to Section 853 of the Internal Revenue Code, the Portfolio designates $0.03 per share as foreign taxes paid and $0.38 per share as income earned from foreign sources for the year ended December 31, 2008.

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

The Trust's policies and procedures for voting proxies for portfolio securities and information about how the Trust voted proxies related to its portfolio securities during the 12-month period ended June 30 are available on our Web site — www.dws-investments.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 Fund's investment management agreement (the "Investment Management Agreements") with Deutsche Investment Management Americas Inc. ("DIMA") and, for each sub-advised Fund, the sub-advisory agreement (the "Sub-Advisory Agreements," and together with the Investment Management Agreements, the "Agreements") between DIMA and the sub-advisor (the "Sub-Advisors") in September 2008.[1]

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

- At the present time, all but one of the Funds' 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. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee and Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of each Fund's performance, fees and expenses, and profitability compiled by the Funds' independent fee consultant. The Board also received extensive information throughout the year regarding performance of each Fund.
- The Independent Trustees regularly meet privately with their independent counsel (and, as needed, other advisors) to discuss contract review and other matters. In addition, the Independent Trustees were also advised by the Funds' independent fee consultant in the course of their review of each Fund's contractual arrangements and considered a comprehensive report prepared by the independent fee consultant in connection with their deliberations (the "IFC Report").
- In connection with reviewing the Agreements, the Board also reviewed the terms of each Fund's Rule 12b-1 plan (as applicable), distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Independent Trustees as a group. The Independent Trustees reviewed the Contract Committee's findings and recommendations and presented their recommendations to the full Board.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DIMA and its predecessors have managed each Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of each Fund. The Board considered, generally, that shareholders chose to invest or remain invested in each Fund knowing that DIMA managed the Fund, and that the Agreements were approved by the Fund's shareholders at a special meeting held in 2008. DIMA is part of Deutsche Bank, a major global banking institution that is engaged in a wide range of financial services. The Board believes 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.

While shareholders may focus primarily on fund performance and fees, the Board considers these and many other factors, including the quality and integrity of DIMA's and the Sub-Advisors' personnel and such other issues as back-office operations, fund valuations, and compliance policies and procedures.

Nature, Quality and Extent of Services. The Board considered the terms of the Agreements, including the scope of advisory services provided under the Agreements. The Board noted that, under the Agreements, DIMA and the Sub-Advisors provide portfolio management services to the Funds and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Funds. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such

1 *The Sub-Advisors are: Davis Selected Advisers, L.P. (DWS Davis Venture Value VIP); Dreman Value Management L.L.C. (DWS Dreman Small Mid Cap Value VIP and DWS Dreman High Return Equity VIP); Aberdeen Asset Management, Inc. (DWS Core Fixed Income VIP); Janus Capital Management LLC (DWS Janus Growth & Income VIP); Turner Investment Partners, Inc. (DWS Turner Mid Cap Growth VIP); and Deutsche Asset Management International GmbH, an affiliate of DIMA (DWS Large Cap Value VIP and DWS Balanced VIP).*

personnel, the ability of DIMA and the Sub-Advisors to attract and retain high-quality personnel, and the organizational depth and stability of DIMA and the Sub-Advisors. The Board reviewed each Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market indices and a peer universe compiled by the independent fee consultant using information supplied by Lipper Inc. ("Lipper"). 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 DIMA regarding such funds, along with DIMA's remedial plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds.

On the basis of this evaluation and the ongoing review of investment results by the Board, the Board concluded that the nature, quality and extent of services provided by DIMA and the Sub-Advisors historically have been and continue to be satisfactory.

Fees and Expenses. The Board considered each Fund's investment management fee schedule, operating expenses, and total expense ratios, and comparative information provided by Lipper and the independent fee consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). The Board considered each Fund's management fee rate as compared to fees charged by DIMA and certain of its affiliates for comparable mutual funds and considered differences in fund and fee structures between the DWS Funds. The Board also considered how each 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).

On the basis of the information provided, the Board concluded that management fees were reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA and the Sub-Advisors.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Investment Management Agreements. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the DWS Funds, as well as estimates of the pre-tax profits attributable to managing each Fund in particular. The Board also received information regarding the estimated enterprise-wide profitability of the DWS Investments 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 Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of each Fund were not unreasonable. 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 Investments 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 Board also considered the estimated profitability of the Sub-Advisors based on revenues and expenses provided by the Sub-Advisors and concluded that the estimated profitability realized by each Sub-Advisor in connection with the management of its respective Fund(s) was not unreasonable.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of each Fund and whether each Fund benefits from any economies of scale. The Board noted that each Fund's management fee schedule includes fee breakpoints. The Board concluded that each Fund's fee schedule represents an appropriate sharing between the Fund and DIMA of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DIMA and the Sub-Advisors and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and the Sub-Advisors and their affiliates, including any fees received by DIMA for administrative services provided to each Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA and the Sub-Advisors related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA and the Sub-Advisors related to DWS Funds advertising and cross-selling opportunities among DWS Investments products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of 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.

In connection with the factors described above, the Board considered factors specific to each Fund, as discussed below.

DWS Mid Cap Growth VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 4th quartile, 3rd quartile and 4th quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one- and five-year periods ended December 31, 2007 and outperformed its benchmark in the three-year period ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. 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.

DWS Blue Chip VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd quartile and 2nd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-year period ended December 31, 2007 and outperformed its benchmark in each of the three- and five-year periods ended December 31, 2007.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

DWS Davis Venture Value VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd quartile and 1st quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in each of the one- and three-year periods ended December 31, 2007 and underperformed it benchmark in the five-year period ended December 31, 2007.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory fee paid to the Sub-Advisor, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (4th quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. 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.

DWS Dreman High Return Equity VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 4th quartile, 4th quartile and 2nd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one- and three-year periods ended December 31, 2007 and outperformed its benchmark in the five-year period ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA and the Sub-Advisor the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DIMA and the Sub-Advisor have made significant changes in investment personnel and processes in recent years in an effort to improve long-term performance.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory fee paid to the Sub-Advisor, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. 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.

DWS Dreman Small Mid Cap Value VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 1st quartile of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the

Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory fee paid to the Sub-Advisor, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses.

DWS Global Thematic VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 4th quartile, 1st quartile and 1st quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-year period ended December 31, 2007 and outperformed its benchmark in each of the three- and five-year periods ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. 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.

DWS International Select Equity VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 1st quartile, 1st quartile and 2nd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in each of the one- and three-year periods ended December 31, 2007 and underperformed its benchmark in the five-year period ended December 31, 2007.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be equal to the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

DWS Janus Growth & Income VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the

4th quartile, 3rd quartile and 3rd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-year period ended December 31, 2007 and outperformed its benchmark in each of the three- and five-year periods ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA and the Sub-Advisor the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DIMA and the Sub-Advisor have made significant changes in investment personnel and processes in recent years in an effort to improve long-term performance.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory fee paid to the Sub-Advisor, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees). The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

DWS Large Cap Value VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 1st quartile of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in each of the one- and three-year periods ended December 31, 2007 and underperformed its benchmark in the five-year period ended December 31, 2007.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory fee paid to the Sub-Advisor, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

DWS Small Cap Growth VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 3rd quartile, 4th quartile and 4th quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

DWS Technology VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 4th quartile of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DIMA has made significant changes in its investment personnel and processes in recent years in an effort to improve long-term performance, including the introduction of a new portfolio management team in 2006.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

DWS Balanced VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 3rd quartile, 3rd quartile and 4th quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance during the first six months of 2008. The Board recognized that DIMA has made significant changes in its investment personnel and processes in the past year, including adding DeAMi as sub-advisor for a portion of the large cap value allocation of the Fund, in an effort to improve long-term performance.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory fee paid to the Sub-Advisor, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be lower than the median (1st quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the

Lipper Universe Expenses. The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

DWS Turner Mid Cap Growth VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 1st quartile, 2nd quartile and 1st quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory fee paid to the Sub-Advisor, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

DWS Core Fixed Income VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 4th quartile, 4th quartile and 3rd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA and the Sub-Advisor the factors contributing to such underperformance and actions being taken to improve performance. 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.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). With respect to the sub-advisory fee paid to the Sub-Advisor, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses.

DWS Government & Agency Securities VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 1st quartile of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. 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.

DWS High Income VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 4th quartile, 3rd quartile and 2nd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance during the first six months of 2008. 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.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would be competitive relative to the applicable Lipper universe.

DWS Strategic Income VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 3rd quartile, 1st quartile and 2nd quartile, respectively, of the applicable Lipper universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in each of the one-, three- and five-year periods ended December 31, 2007.

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. 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.

DWS Money Market VIP

Nature, Quality and Extent of Services. Based on the information provided, the Board noted that for the one-, three- and five-year periods ended December 31, 2007, the Fund's performance (Class A shares) was in the 2nd quartile of the applicable iMoneyNet universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

Fees and Expenses. With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include the 0.10% fee paid to DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2007). The Board noted that the Fund's Class A shares' total (net) operating expenses were expected to be lower than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2007, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed each other share class's total (net) operating expenses relative to the Lipper Universe Expenses. 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.

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Based on all of the information considered and the conclusions reached, the Board (including a majority of the Independent Trustees) determined that the continuation of the Agreements is in the best interests of each Fund. In making this determination the Board did not give particular weight to any single factor identified above. The Board considered these factors over the course of numerous meetings, certain of which were in executive session with only the Independent Trustees and 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 Agreements.

Summary of Management Fee Evaluation by Independent Fee Consultant

October 24, 2008

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 Funds (formerly 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 2008, including my qualifications, the evaluation process for each of the DWS Funds, consideration of certain complex-level factors, and my conclusions. I served in substantially the same capacity in 2007.

Qualifications

For more than 35 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 ten 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 Fund

My work focused primarily on evaluating, fund-by-fund, the fees charged to each of the 129 Fund portfolios in the DWS 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 Fund. These similar products included the other DWS 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 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 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 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 Funds are reasonable.

Thomas H. Mack

Thomas H. Mack

Summary of Administrative Fee Evaluation by Independent Fee Consultant

September 29, 2008

Pursuant to an Order entered into by Deutsche Asset Management (DeAM) with the Attorney General of New York, I, Thomas H. Mack, have been appointed the Independent Fee Consultant for the DWS Funds and have as part of my duties evaluated the reasonableness of the proposed management fees to be charged by DeAM to the DWS Funds, taking onto account a proposal to pass through to the funds certain fund accounting-related charges in connection with new regulatory requirements. My evaluation considered the following:

- While the proposal would alter the services to be provided under the Administration Agreement, which I consider to be part of fund management under the Order, it is my opinion that the change in services is slight and that the scope of prospective services under the combination of the Advisory and Administration Agreements continues to be comparable with those typically provided to competitive funds under their management agreements.
- While the proposal would increase fund expenses, according to a pro forma analysis performed by management, the prospective effect is less than .01% for all but seven of the DeAM Funds' 438 active share classes, and in all cases the effect is less than .03% and overall expenses would remain reasonable in my opinion.

Based on the foregoing considerations, in my opinion the fees and expenses for all of the DWS Funds will remain reasonable if the Directors adopt this proposal.

Thomas H. Mack

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the Trust as of December 31, 2008. 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. Except as otherwise noted below, 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. The Length of Time Served represents the year in which the Board Member joined the board of one or more DWS funds now overseen by the Board.

Independent Board Members

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in DWS Fund Complex Overseen
Paul K. Freeman (1950) Chairperson since 2009[2] Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Governing Council of the Independent Directors Council (governance, executive committees); formerly, Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	134
Dawn-Marie Driscoll (1946) Board Member since 1987	President, Driscoll Associates (consulting firm); Executive Fellow, Center for Business Ethics, Bentley University; formerly, Partner, Palmer & Dodge (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (1978–1988). Directorships: Trustee of 20 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 University; Trustee, Southwest Florida Community Foundation (charitable organization). Former Directorships: Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	134
John W. Ballantine (1946) Board Member since 1999	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	134
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (media company); Boston Museum of Science; Public Radio International; PRX, The Public Radio Exchange; The PBS Foundation. Former Directorships: American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	134
Keith R. Fox (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds). Directorships: Progressive Holding Corporation (kitchen goods importer and distributor); Box Top Media Inc. (advertising); The Kennel Shop (retailer)	134
Kenneth C. Froewiss (1945) Board Member since 2001	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)	134
Richard J. Herring (1946) Board Member since 1990	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)	134
William McClayton (1944) Board Member since 2004	Managing Director, Diamond Management & Technology Consultants, Inc. (global management consulting firm) (2001–present); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	134
Rebecca W. Rimel (1951) Board Member since 1995	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 (2001–2007); Trustee, Pro Publica (2007–present) (charitable organization). 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[3] (January 2007–June 2007)	134

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in DWS Fund Complex Overseen
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; Trustee of 20 open-end mutual funds managed by Sun Capital Advisers, Inc. (since October 1998). Formerly, Pension & Savings Trust Officer, Sprint Corporation[3] (telecommunications) (November 1989–September 2003)	134
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; Business Leadership Council, Wellesley College. Former Directorships: Service Source, Inc., Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	134
Robert H. Wadsworth (1940) Board Member since 1999	President, Robert H. Wadsworth & Associates, Inc. (consulting firm) (1983 to present); Director, The Phoenix Boys Choir Association	137

Interested Board Member

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Fund Complex Overseen
Axel Schwarzer[4] (1958) Board Member since 2006	Managing Director[5], Deutsche Asset Management; Head of Deutsche Asset Management Americas; CEO of DWS Investments; 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)	134

Officers[6]

Name, Year of Birth, Position with the Fund and Length of Time Served[7]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
Michael G. Clark[8] (1965) President, 2006–present	Managing Director[5], 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[9] (1962) Vice President and Secretary, 1999–present	Director[5], Deutsche Asset Management
Paul H. Schubert[8] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[5], 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)
Caroline Pearson[9] (1962) Assistant Secretary, 1997–present	Managing Director[5], Deutsche Asset Management
Rita Rubin[10] (1970) Assistant Secretary, 2009–present	Vice President and Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007); Attorney, Shearman & Sterling LLP (2004); Vice President and Associate General Counsel, UBS Global Asset Management (2001–2004)
Paul Antosca[9] (1957) Assistant Treasurer, 2007–present	Director[5], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[9] (1967) Assistant Treasurer, 2007–present	Director[5], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[9] (1966) Assistant Treasurer, 2007–present	Director[5], Deutsche Asset Management
Jason Vazquez[10] (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[10] (1962) Chief Compliance Officer, 2006–present	Managing Director[5], 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)

Name, Year of Birth, Position with the Fund and Length of Time Served[7]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
J. Christopher Jackson[10] (1951) Chief Legal Officer, 2006–present	Director[5], 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 *The length of time served represents the year in which the Board Member joined the board of one or more DWS funds currently overseen by the Board.*

2 *Mr. Freeman assumed the Chairperson role as of January 1, 2009. Prior to that Ms. Driscoll served as Chairperson of certain DWS funds since 2004.*

3 *A publicly held company with securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.*

4 *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. As an interested person, Mr. Schwarzer receives no compensation from the fund.*

5 *Executive title, not a board directorship.*

6 *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.*

7 *The length of time served represents the year in which the officer was first elected in such capacity for one or more DWS funds.*

8 *Address: 345 Park Avenue, New York, New York 10154.*

9 *Address: One Beacon Street, Boston, MA 02108.*

10 *Address: 280 Park Avenue, New York, New York 10017.*

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.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 778-1482

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Kemper Investors Life
Insurance Company

Administrative office:
2000 Wade Hampton Blvd.
Greenville, SC 29615-1064

This report must be preceded or accompanied by the current prospectus. Read it carefully before investing.

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