Annual report to contract holders for the twelve months ended December 31, 2011

ANNUAL REPORT

FOR CONTRACT HOLDERS OF SCUDDER DESTINATIONS℠

AIM Variable Insurance Funds (Invesco Variable Insurance Funds)

The Alger Portfolios

Dreyfus Investment Portfolios

The Dreyfus Socially Responsible Growth Fund, Inc.

DWS Investments VIT Funds

DWS Variable Series I

DWS Variable Series II

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUS

DWS Balanced VIP

(Effective on or about May 1, 2012: **DWS Global Income Builder VIP)**

Effective on or about May 1, 2012, DWS Balanced VIP will change its name to DWS Global Income Builder VIP.

Effective on or about May 1, 2012, the following sections of the summary prospectus are supplemented as follows:

The following information replaces the existing disclosure contained in the "INVESTMENT OBJECTIVE" section of the fund's summary prospectus:

The fund seeks to maximize income while maintaining prospects for capital appreciation.

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

Main investments. The fund invests in a broad range of both traditional asset classes (such as equity and fixed income investments) and alternative asset classes (such as real estate, infrastructure, convertibles, commodities, currencies and absolute return strategies). The fund can buy many types of securities, among them common stocks, convertible securities, corporate bonds, government bonds, inflation-indexed bonds, mortgage- and asset-backed securities and exchange-traded funds (ETFs). The fund can invest in securities of any size, investment style category, or credit quality, and from any country (including emerging markets). The fund will generally invest in at least three different countries and will normally have investment exposure to foreign securities, foreign currencies and other foreign investments equal to at least 40% of the fund's net assets. The fund invests at least 25% of net assets in fixed income senior securities.

Management process. Portfolio management allocates the fund's assets among various asset categories. Portfolio management periodically reviews the fund's allocations and may adjust them based on current or anticipated market conditions or to manage risk consistent with the fund's overall investment strategy. Within each asset category, portfolio management uses one or more investment strategies for selecting equity and debt securities. Each investment strategy is managed by a team that specializes in a particular asset category, and that may use a variety of quantitative and qualitative techniques.

Derivatives. Portfolio management generally may use credit default swaps, which are a type of derivative (contracts whose value is based on, for example, indices, currencies or securities), to increase the fund's income, to gain exposure to a bond issuer's credit quality characteristics without directly investing in the bond, or to hedge the risk of default on bonds held in the fund's portfolio. In addition, portfolio management generally may use forward currency contracts to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings or to facilitate transactions in foreign currency denominated securities, and futures contracts to gain exposure to different parts of the yield curve while managing overall duration, and to gain exposure to a particular asset class or to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market.

The fund may also use various types of derivatives (i) for hedging purposes; (ii) for risk management; (iii) for non-hedging purposes to seek to enhance potential gains; or (iv) as a substitute for direct investment in a particular asset class or to keep cash on hand to meet shareholder redemptions.

Securities Lending. The fund may lend securities (up to one-third of total assets) to approved institutions.

December 27, 2011
PROSTKR-140

DWS INVESTMENTS
Deutsche Bank Group

The following information replaces the existing disclosure under the "MANAGEMENT" section of the fund's summary prospectus.

MANAGEMENT

Investment Advisor

Deutsche Investment Management Americas Inc.

Portfolio Manager(s)

William Chepolis, CFA, Managing Director. Portfolio Manager of the fund. Joined the fund in 2005.

Thomas Schuessler, PhD., Managing Director. Portfolio Manager of the fund. Joined the fund in 2008.

Fabian Degen, Assistant Vice President. Portfolio Manager of the fund. Joined the fund in 2012.

Effective on or about May 1, 2012, QS Investors, LLC ("QS Investors") will no longer serve as subadvisor to the fund. All references to QS Investors are hereby deleted effective on or about May 1, 2012.

Please Retain This Supplement for Future Reference

December 27, 2011
PROSTKR-140

Invesco V.I. Utilities Fund

Annual Report to Shareholders ▪ December 31, 2011

The Fund provides a complete list of its holdings four times in each fiscal year, at the quarter-ends. For the second and fourth quarters, the lists appear in the Fund's semiannual and annual reports to shareholders. For the first and third quarters, the Fund files the lists with the Securities and Exchange Commission (SEC) on Form N-Q. The Fund's Form N-Q filings are available on the SEC website, sec.gov. Copies of the Fund's Forms N-Q may be reviewed and copied at the SEC Public Reference Room in Washington, D.C. You can obtain information on the operation of the Public Reference Room, including information about duplicating fee charges, by calling 202 551 8090 or 800 732 0330, or by electronic request at the following email address: publicinfo@sec.gov. The SEC file numbers for the Fund are 811-07452 and 033-57340. The Fund's most recent portfolio holdings, as filed on Form N-Q, have also been made available to insurance companies issuing variable annuity contracts and variable life insurance policies ("variable products") that invest in the Fund.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge, upon request, from our Client Services department at 800 959 4246 or at invesco.com/proxyguidelines. The information is also available on the SEC website, sec.gov.

Information regarding how the Fund voted proxies related to its portfolio securities during the 12 months ended June 30, 2011, is available at invesco.com/proxysearch. The information is also available on the SEC website, sec.gov.

Invesco Advisers, Inc. is an investment adviser; it provides investment advisory services to individual and institutional clients and does not sell securities. Invesco Distributors, Inc. is the U.S. distributor for Invesco Ltd.'s retail mutual funds, exchange-traded funds and institutional money market funds. Both are wholly owned, indirect subsidiaries of Invesco Ltd.

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

Invesco Distributors, Inc.

I-VIUTI-AR-1

Management's Discussion of Fund Performance

Performance summary

For the 12 months ended December 31, 2011, Invesco V.I. Utilities Fund posted gains. Fund returns significantly outpaced the broad market, as measured by the S&P 500 Index, but underperformed the Fund's style-specific benchmark, the S&P 500 Utilities Index. Performance drivers were primarily stock-specific as the electric utilities and multi-utilities industries contained some of the top contributors to Fund performance as well as the Fund's top detractors.

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

Fund vs. Indexes

Total returns, 12/31/10 to 12/31/11, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	16.45%
Series II Shares	16.15
S&P 500 Index▼ (Broad Market Index)	2.09
S&P 500 Utilities Index▼ (Style-Specific Index)	19.91
Lipper VUF Utility Funds Category Average▼ (Peer Group)	7.92

Source(s): ▼Lipper Inc.

How we invest

In selecting investments, we focus on companies in the electric utilities, natural gas, water and telecommunications industries. We emphasize companies with solid balance sheets and operational cash flows that support sustained or increasing dividends. Fundamental research and financial statement analysis are the backbone of our bottom-up investment process. Using a variety of valuation techniques, we estimate the potential return of holdings over a two-year investment period. We construct the portfolio to provide what we believe to be the best combination of price appreciation potential, dividend income and risk profile, and the Fund typically maintains full sector exposure. We strive to manage risk by maintaining an average of 30 to 50 positions, low portfolio turnover, and a rigorous sell discipline.

We are committed to providing strategic exposure to a traditionally defensive and income-oriented asset class by using a total return approach to managing the Fund, emphasizing capital appreciation, current income and capital preservation.

Market conditions and your Fund

Equity markets were volatile during 2011, but the broad market, as measured by the S&P 500 Index, still managed to post a small gain. In the first quarter most major indexes performed well, fueled by the second round of "quantitative easing" from the U.S. Federal Reserve. However, with the spring came increased volatility and significant macroeconomic distortions due to civil unrest in Egypt and Libya, flooding in Australia, and a devastating earthquake and tsunami in Japan. Corporate earnings remained strong with largely positive surprises, but were often overshadowed by investor concerns about continuing high unemployment and soft housing data. Although markets stabilized and were generally in positive territory throughout the summer, major equity indexes sold off precipitously in August as the U.S. government struggled to raise the nation's debt ceiling. Despite an eventual agreement between the White House and Congress, credit rating agency Standard & Poor's announced the first-ever downgrade to long-term U.S. government debt. Uncertainty created by the downgrade combined with worries over the debt crisis in the eurozone caused fears of a global recession. Despite evidence of sustained but muted growth, these macroeconomic factors continued to weigh on markets through the end of the reporting period. While many of the developments of the past year were newsworthy, as investors, we believe success is achieved by remaining focused on company fundamentals and maintaining a long-term perspective.

Sector performance within the S&P 500 Index was mixed for the year. The utilities sector had the highest return, while financials had the lowest. The utilities sector returned 19.91% for the period, as compared to 2.09% for the overall S&P 500 Index.[1]

Dominion Resources, a largely regulated utility company, was the largest contributor to the Fund's performance. The company provides electricity and natural gas to customers in Virginia, West Virginia, Ohio, Pennsylvania and eastern North Carolina as well as operating the largest gas storage facility in the nation. Dominion benefited from a constructive regulatory framework in Virginia, which should allow for continued and stable capital investment at the company's utility business in the state. Additionally, the company's infrastructure business remains focused on gas project development in the Marcellus Shale region.

Southern Union was also among the top contributors to Fund performance

Portfolio Composition

By sector

Utilities	88.5%
Telecommunication Services	4.4
Money Market Funds Plus Other Assets Less Liabilities	7.1

Top 10 Equity Holdings*

1.	Southern Co.	5.0%
2.	American Electric Power Co., Inc.	4.9
3.	Xcel Energy, Inc.	4.7
4.	Dominion Resources, Inc.	4.6
5.	Portland General Electric Co.	4.5
6.	Pepco Holdings, Inc.	4.3
7.	Exelon Corp.	4.3
8.	National Grid PLC	4.3
9.	Entergy Corp.	3.9
10.	Edison International	3.7

Total Net Assets	$72.8 million
Total Number of Holdings*	37

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.

during the year. The company's earnings increased as a large pipeline expansion project in Florida was completed on time and on budget. The stock's strong performance was largely due to competing offers from The Williams Companies and Energy Transfer (not Fund holdings) to purchase Southern Union. Terms to acquire the company were announced by Energy Transfer, and it is set to close in early 2012.

The largest detractor from Fund performance was **E.ON**, a diversified utility provider and nuclear generator based in Germany. Weakness in the stock was driven by government mandated nuclear plant shutdowns following the Fukushima nuclear event in Japan. The company also suffered from weak gas market conditions across Europe.

California based **PG&E** was also among the largest detractors from results. Following the September 2010 San Bruno gas pipeline explosion, the company faced increased regulatory scrutiny. In March 2011, the California Public Utilities Commission ordered PG&E to turn over records pertaining to safety inspections. The regulatory review is ongoing. Total fines, as well as required spending to improve the pipeline, have yet to be determined.

There were no major positioning changes in the Fund during the reporting period; however, Fund holdings were sold in oil, gas and consumable fuels, while holdings in multi-utilities as well as independent power producers and energy traders were added. We continued to emphasize regulated over nonregulated companies. At the end of the reporting period, the Fund's largest industry allocations were in the electric utilities and multi-utilities industries.

We'd like to thank you for your continued investment in Invesco V.I. Utilities Fund. We reiterate our commitment to providing investors strategic exposure to a traditionally defensive and income-oriented asset class through our total return approach, emphasizing capital appreciation, current income and capital preservation.

1 Source: Lipper Inc.

The views and opinions expressed in management's discussion of Fund performance are those of Invesco Advisers, 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 Advisers, 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, if applicable, index disclosures later in this report.

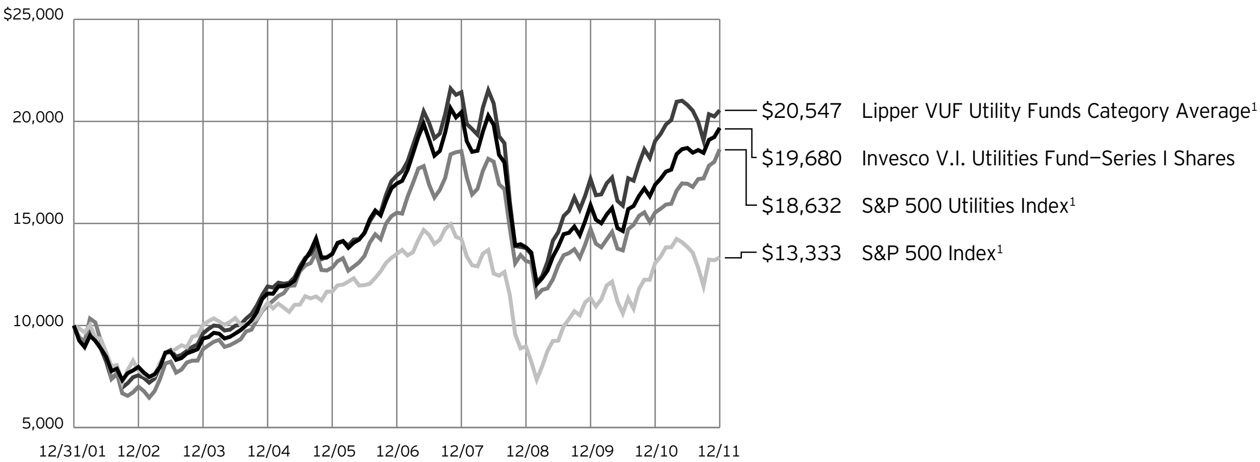
Meggan Walsh
Chartered Financial Analyst, portfolio manager, is lead manager of Invesco V.I. Utilities Fund. Ms. Walsh began her career in the investment industry in 1987 and joined Invesco in 1991. Ms. Walsh earned a B.S. in finance from the University of Maryland and an M.B.A. from Loyola University Maryland.

Robert Botard
Chartered Financial Analyst, portfolio manager, is manager of Invesco V.I. Utilities Fund. Mr. Botard began his career in the investment industry in 1991 and joined Invesco in 1993. Mr. Botard earned a B.B.A. in both finance and international business from The University of Texas at Austin and a Master of International Management degree from the American Graduate School of International Management, Thunderbird.

Your Fund's Long-Term Performance

Results of a $10,000 Investment — Oldest Share Class(es)

Fund and index data from 12/31/01*



1 Source: Lipper Inc.

*During the reporting period, Invesco changed its policy regarding growth of $10,000 charts. For funds older than 10 years, we previously showed performance since inception. Going forward, we will show performance for the most recent 10 years, since this more accurately reflects the experience of the typical shareholder. As a result, charts now may include benchmarks that did not appear previously, because the funds' inception pre-dated the benchmarks' inception. Also, all charts will now be presented using a linear format.

Past performance cannot guarantee comparable future results.

Average Annual Total Returns
As of 12/31/11

Series I Shares	
Inception (12/30/94)	7.04%
10 Years	7.00
5 Years	3.03
1 Year	16.45
Series II Shares	
10 Years	6.74%
5 Years	2.76
1 Year	16.15

Series II shares incepted on April 30, 2004. Performance shown prior to that date is that of Series I shares, restated to reflect the higher 12b-1 fees applicable to Series II. Series I performance reflects any applicable fee waivers or expense reimbursements. The performance of the Fund's Series I and Series II share classes will differ primarily due to different class expenses.

The performance data quoted represent past performance and cannot guarantee comparable future results; current performance may be lower or higher. Please contact your variable product issuer or financial adviser for the most recent month-end variable product performance. Performance figures reflect Fund expenses, reinvested distributions and changes in net asset value. Investment return and principal value will fluctuate so that you may have a gain or loss when you sell shares.

The net annual Fund operating expense ratio set forth in the most recent Fund prospectus as of the date of this report for Series I and Series II shares was 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 1.04% and 1.29%, respectively. The expense ratios presented above may vary from the expense ratios presented in other sections of this report that are based on expenses incurred during the period covered by this report.

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

The most recent month-end performance data at the Fund level, excluding variable product charges, is available at 800 451 4246. As mentioned above, for the most recent month-end performance including variable product charges, please contact your variable product issuer or financial adviser.

1 Total annual Fund operating expenses after any contractual fee waivers and/or expense reimbursements by the adviser in effect through at least April 30, 2012. See current prospectus for more information.

Invesco V.I. Utilities Fund's investment objective is long-term growth of capital and, secondarily, current income.

- Unless otherwise stated, information presented in this report is as of December 31, 2011, and is based on total net assets.
- Unless otherwise noted, all data provided by Invesco.
- To access your Fund's reports/prospectus, visit invesco.com/fundreports.

Principal risks of investing in the Fund

Foreign securities risk. The Fund's foreign investments may be affected by changes in a foreign country's exchange rates; political and social instability; changes in economic or taxation policies; difficulties when enforcing obligations; decreased liquidity; and increased volatility. Foreign companies may be subject to less regulation resulting in less publicly available information about the companies.

IPO risk. Although the Fund's return during certain periods was positively impacted 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.

Management risk. The investment techniques and risk analysis used by the Fund's portfolio managers may not produce the desired results.

Market risk. The prices of and the income generated by the Fund's securities may decline in response to, among other things, investor sentiment; general economic and market conditions; regional or global instability; and currency and interest rate fluctuations.

Sector fund risk. The Fund's investments are concentrated in a comparatively narrow segment of the economy, which may make the Fund more volatile than non-concentrated funds.

Small- and mid-capitalization risks. Stocks of small and mid-sized companies tend to be more vulnerable to adverse developments in the above factors and may have little or no operating history or track record of success, and limited product lines, markets, management and financial resources. The securities of small and mid-sized companies may be more volatile due to less market interest and less publicly available information about the issuer. They also may be illiquid or restricted as to resale, or may trade less frequently and in smaller volumes, all of which may cause difficulty when establishing or closing a position at a desirable price.

Utilities sector risk. The following factors may affect the Fund's investments in the utilities sector: governmental regulation, economic factors, ability of the issuer to obtain financing, prices of natural resources and risks associated with nuclear power.

About indexes used in this report

The **S&P 500® Index** is an unmanaged index considered representative of the U.S. stock market.

The **S&P 500 Utilities Index** is an unmanaged index considered representative of the utilities market.

The **Lipper VUF Utility Funds Category Average** represents an average of all of the variable insurance underlying funds in the Lipper Utility Funds category.

The Fund is not managed to track the performance of any particular index, including the index(es) defined here, and consequently, the performance of the Fund may deviate significantly from the performance of the index(es).

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

Other information

The Chartered Financial Analyst® (CFA®) designation is globally recognized and attests to a charterholder's success in a rigorous and comprehensive study program in the field of investment management and research analysis.

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.

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.

Schedule of Investments[a]

December 31, 2011

	Shares	Value
Common Stocks–92.92%		
Electric Utilities–47.01%		
American Electric Power Co., Inc.	86,745	$ 3,583,436
Duke Energy Corp.	99,961	2,199,142
E.ON AG (Germany)	53,357	1,147,017
Edison International	64,154	2,655,976
Entergy Corp.	38,823	2,836,020
Exelon Corp.	71,910	3,118,737
FirstEnergy Corp.	37,067	1,642,068
NextEra Energy, Inc.	13,427	817,436
Northeast Utilities	56,909	2,052,708
Pepco Holdings, Inc.	155,120	3,148,936
Pinnacle West Capital Corp.	23,157	1,115,704
Portland General Electric Co.	129,466	3,274,195
PPL Corp.	60,234	1,772,084
Progress Energy, Inc.	21,604	1,210,256
Southern Co.	79,108	3,661,909
		34,235,624
Gas Utilities–6.00%		
AGL Resources, Inc.	38,623	1,632,208
Atmos Energy Corp.	16,927	564,516
ONEOK, Inc.	8,842	766,513
UGI Corp.	47,738	1,403,497
		4,366,734
Independent Power Producers & Energy Traders–6.35%		
Calpine Corp.[b]	106,319	1,736,189
Constellation Energy Group, Inc.	31,764	1,260,078
NRG Energy, Inc.[b]	90,028	1,631,307
		4,627,574
Integrated Telecommunication Services–4.43%		
AT&T Inc.	28,008	$ 846,962
CenturyLink Inc.	25,623	953,175
Verizon Communications, Inc.	35,589	1,427,831
		3,227,968
Multi-Utilities–28.19%		
CMS Energy Corp.	31,778	701,658
Consolidated Edison, Inc.	9,005	558,580
Dominion Resources, Inc.	63,741	3,383,372
DTE Energy Co.	24,967	1,359,453
National Grid PLC (United Kingdom)	320,668	3,113,286
NiSource, Inc.	30,658	729,967
PG&E Corp.	35,059	1,445,132
Public Service Enterprise Group, Inc.	43,704	1,442,669
Sempra Energy	37,558	2,065,690
TECO Energy, Inc.	120,370	2,303,882
Xcel Energy, Inc.	124,133	3,431,036
		20,534,725
Oil & Gas Storage & Transportation–0.94%		
Southern Union Co.	16,278	685,467
Total Common Stocks (Cost $54,125,148)		67,678,092
Money Market Funds–6.93%		
Liquid Assets Portfolio–Institutional Class[c]	2,524,688	2,524,688
Premier Portfolio–Institutional Class[c]	2,524,689	2,524,689
Total Money Market Funds (Cost $5,049,377)		5,049,377
TOTAL INVESTMENTS–99.85% (Cost $59,174,525)		72,727,469
OTHER ASSETS LESS LIABILITIES–0.15%		106,044
NET ASSETS–100.00%		$72,833,513

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 adviser.

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

Statement of Assets and Liabilities

December 31, 2011

Assets:	
Investments, at value (Cost $54,125,148)	$67,678,092
Investments in affiliated money market funds, at value and cost	5,049,377
Total investments, at value (Cost $59,174,525)	72,727,469
Receivable for:	
Fund shares sold	99,350
Dividends	318,874
Investment for trustee deferred compensation and retirement plans	41,249
Total assets	73,186,942
Liabilities:	
Payable for:	
Fund shares reacquired	225,190
Accrued fees to affiliates	40,416
Accrued other operating expenses	32,119
Trustee deferred compensation and retirement plans	55,704
Total liabilities	353,429
Net assets applicable to shares outstanding	$72,833,513
Net assets consist of:	
Shares of beneficial interest	$54,988,912
Undistributed net investment income	2,091,940
Undistributed net realized gain	2,199,937
Unrealized appreciation	13,552,724
	$72,833,513
Net Assets:	
Series I	$70,955,709
Series II	$ 1,877,804
Shares outstanding, $0.001 par value per share, with an unlimited number of shares authorized:	
Series I	4,239,612
Series II	112,931
Series I:	
Net asset value per share	$ 16.74
Series II:	
Net asset value per share	$ 16.63

Statement of Operations

For the year ended December 31, 2011

Investment income:	
Dividends (net of foreign withholding taxes of $17,440)	$ 2,773,403
Dividends from affiliated money market funds	3,364
Total investment income	2,776,767
Expenses:	
Advisory fees	400,703
Administrative services fees	200,579
Custodian fees	5,789
Distribution fees — Series II	4,526
Transfer agent fees	21,383
Trustees' and officers' fees and benefits	20,446
Other	48,927
Total expenses	702,353
Less: Fees waived	(81,236)
Net expenses	621,117
Net investment income	2,155,650
Realized and unrealized gain from:	
Net realized gain (loss) from:	
Investment securities	3,891,720
Foreign currencies	(2,305)
	3,889,415
Change in net unrealized appreciation (depreciation) of:	
Investment securities	4,256,218
Foreign currencies	(3,719)
	4,252,499
Net realized and unrealized gain	8,141,914
Net increase in net assets resulting from operations	$10,297,564

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, 2011 and 2010

	2011	2010
Operations:		
Net investment income	$ 2,155,650	$ 2,154,889
Net realized gain	3,889,415	2,280,276
Change in net unrealized appreciation (depreciation)	4,252,499	(674,565)
Net increase in net assets resulting from operations	10,297,564	3,760,600
Distributions to shareholders from net investment income:		
Series I	(2,123,528)	(2,309,020)
Series II	(57,674)	(55,316)
Total distributions from net investment income	(2,181,202)	(2,364,336)
Share transactions–net:		
Series I	(898,765)	(8,086,914)
Series II	(34,322)	(32,168)
Net increase (decrease) in net assets resulting from share transactions	(933,087)	(8,119,082)
Net increase (decrease) in net assets	7,183,275	(6,722,818)
Net assets:		
Beginning of year	65,650,238	72,373,056
End of year (includes undistributed net investment income of $2,091,940 and $2,119,797, respectively)	$72,833,513	$65,650,238

Notes to Financial Statements

December 31, 2011

NOTE 1—Significant Accounting Policies

Invesco V.I. Utilities Fund (the "Fund") is a series portfolio of AIM Variable Insurance Funds (Invesco Variable Insurance Funds) (the "Trust"). The Trust is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end series management investment company consisting of twenty-eight separate portfolios, (each constituting a "Fund"). The assets, liabilities and operations of each portfolio are accounted for separately. Information presented in these financial statements pertains only to the Fund. Matters affecting each Fund or class will be voted on exclusively by the shareholders of such Fund or class. Current Securities and Exchange Commission ("SEC") guidance, however, requires participating insurance companies offering separate accounts to vote shares proportionally in accordance with the instructions of the contract owners whose investments are funded by shares of each Fund or class.

The Fund's investment objective is long-term growth of capital and, secondarily, current 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 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. 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 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 trade 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 economic upheaval, the relative lack of issuer information, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

Securities for which market prices are not provided by any of the above methods may be valued based upon quotes furnished by independent sources. The last bid price may be used to value equity securities. The mean between the last bid and asked prices is used to value debt obligations, including Corporate Loans.

Securities for which market quotations are not readily available or 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 (net of withholding tax, if any) 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 net realized and unrealized gain (loss) from investment securities reported in the Statement of Operations and the Statement of Changes in Net Assets and the net realized and unrealized gains (losses) on securities per share in the Financial Highlights. Transaction costs are included in the calculation of the Fund's net asset value and, accordingly, they reduce the Fund's total returns. These transaction costs are not considered operating expenses and are not reflected in net investment income reported in the Statement of Operations and 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 investment adviser.

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

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

D. Distributions — Distributions from 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 ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including estimates and assumptions related to taxation. Actual results could differ from those estimates by a significant amount. In addition, the Fund monitors for material events or transactions that may occur or become known after the period-end date and before the date the financial statements are released to print.

H. Indemnifications — Under the Trust's organizational documents, each Trustee, officer, employee or other agent of the Trust is indemnified against certain liabilities that may arise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts, including the Fund's servicing agreements that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. The risk of material loss as a result of such indemnification claims is considered remote.

I. Other Risks — The Fund's investments are concentrated in a comparatively narrow segment of the economy, which may make the Fund more volatile.

The Fund may invest a large percentage of its assets in a limited number of securities or other instruments, which could negatively affect the value of the Fund.

The following factors may affect the Fund's investments in the utilities sector: governmental regulation, economic factors, ability of the issuer to obtain financing, prices of natural resources and risks associated with nuclear power.

J. Foreign Currency Translations — Foreign currency is valued at the close of the NYSE based on quotations posted by banks and major currency dealers. Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at date of valuation. Purchases and sales of portfolio securities (net of foreign taxes withheld on disposition) and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Fund does not separately account for the portion of the results of operations resulting from changes in foreign exchange rates on investments and the fluctuations arising from changes in market prices of securities held. The combined results of changes in foreign exchange rates and the fluctuation of market prices on investments (net of estimated foreign tax withholding) are included with the net realized and unrealized gain or loss from investments in the Statement of Operations. Reported net realized foreign currency gains or losses arise from (1) sales of foreign currencies, (2) currency gains or losses realized between the trade and settlement dates on securities transactions, and (3) the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign currency gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

The Fund may invest in foreign securities which may be subject to foreign taxes on income, gains on investments or currency repatriation, a portion of which may be recoverable.

K. Foreign Currency Contracts — The Fund may enter into foreign currency contracts to manage or minimize currency or exchange rate risk. The Fund may also enter into foreign currency contracts for the purchase or sale of a security denominated in a foreign currency in order to "lock in" the U.S. dollar price of that security. A foreign currency contract is an obligation to purchase or sell a specific currency for an agreed-upon price at a future date. The use of foreign currency contracts does not eliminate fluctuations in the price of the underlying securities the Fund owns or intends to acquire but establishes a rate of exchange in advance. Fluctuations in the value of these contracts are measured by the difference in the contract date and reporting date exchange rates and are recorded as unrealized appreciation (depreciation) until the contracts are closed. When the contracts are closed, realized gains (losses) are recorded. Realized and unrealized gains (losses) on the contracts are included in the Statement of Operations. The primary risks associated with foreign currency contracts include failure of the counterparty to meet the terms of the contract and the value of the foreign currency changing unfavorably. These risks may be in excess of the amounts reflected in the Statement of Assets and Liabilities.

NOTE 2—Advisory Fees and Other Fees Paid to Affiliates

The Trust has entered into a master investment advisory agreement with Invesco Advisers, Inc. (the "Adviser" or "Invesco"). Under the terms of the investment advisory agreement, the Fund pays an advisory fee to the Adviser based on the annual rate of 0.60% of the Fund's average daily net assets.

Under the terms of a master sub-advisory agreement between the Adviser and each of Invesco Asset Management Deutschland GmbH, Invesco Asset Management Limited, Invesco Asset Management (Japan) Limited, Invesco Australia Limited, Invesco Hong Kong Limited, Invesco Senior Secured Management, Inc. and Invesco Canada Ltd. (collectively, the "Affiliated Sub-Advisers") the Adviser, not the Fund, may pay 40% of the fees paid to the Adviser to any such Affiliated Sub-Adviser(s) that provide discretionary investment management services to the Fund based on the percentage of assets allocated to such Sub-Adviser(s).

The Adviser has contractually agreed, through at least April 30, 2012, to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses after fee waiver and/or expense reimbursement (excluding certain items discussed below) of Series I shares to 0.93% and Series II shares to 1.18% of average daily net assets. In determining the Adviser's obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating expenses after fee waiver and/or expense reimbursement to exceed the numbers reflected above: (1) interest; (2) taxes; (3) dividend expense on short sales; (4) extraordinary or non-routine items, including litigation expenses; and (5) expenses that the Fund has incurred but did not actually pay because of an expense offset arrangement. Unless the Board of the Trustees and Invesco mutually agree to amend or continue the fee waiver agreement, it will terminate on April 30, 2012.

Further, the Adviser has contractually agreed, through at least June 30, 2012, to waive the advisory fee payable by the Fund in an amount equal to 100% of the net advisory fees the Adviser receives from the affiliated money market funds on investments by the Fund of uninvested cash in such affiliated money market funds.

For the year ended December 31, 2011, the Adviser waived advisory fees of $81,236.

The Trust has entered into a master administrative services agreement with Invesco pursuant to which the Fund has agreed to pay Invesco a fee for costs incurred in providing accounting services and fund administrative services to the Fund and to reimburse Invesco for 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, 2011, Invesco was paid $50,000 for accounting and fund administrative services and reimbursed $150,579 for services provided by insurance companies.

The Trust has entered into a transfer agency and service agreement with Invesco Investment Services, Inc. ("IIS") pursuant to which the Fund has agreed to pay IIS a fee for providing transfer agency and shareholder services to the Fund and reimburse IIS for certain expenses incurred by IIS in the course of providing such services. For the year ended December 31, 2011, expenses incurred under the agreement are shown in the Statement of Operations as transfer agent fees.

The Trust has entered into a master distribution agreement with Invesco Distributors, Inc. ("IDI") to serve as the distributor for the Fund. The Trust has adopted a plan pursuant to Rule 12b-1 under the 1940 Act with respect to the Fund's Series II shares (the "Plan"). The Fund, pursuant to the Plan, pays IDI compensation at the annual rate of 0.25% of the Fund's average daily net assets of Series II shares. Of the Plan payments, up to 0.25% of the average daily net assets of the Series II shares may be paid to insurance companies who furnish continuing personal shareholder services to customers who purchase and own Series II shares of the Fund. For the year ended December 31, 2011, 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 the Adviser, IIS and/or IDI.

NOTE 3—Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment's assigned level:

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

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

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

The following is a summary of the tiered valuation input levels, as of December 31, 2011. 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.

During the year ended December 31, 2011, there were no significant transfers between investment levels.

	Level 1	Level 2	Level 3	Total
Equity securities	$71,580,452	$1,147,017	$—	$72,727,469

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 Invesco 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, 2011, the Fund paid legal fees of $1,200 for services rendered by Kramer, Levin, Naftalis & Frankel LLP as counsel to the Independent Trustees. A partner 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 State Street Bank and Trust Company, the custodian bank. To compensate the custodian bank for such overdrafts, the overdrawn Fund may either (1) leave funds as a compensating balance in the account so the custodian bank can be compensated by earning the additional interest; or (2) compensate by paying the custodian bank at a rate agreed upon by the custodian bank and Invesco, not to exceed the contractually agreed upon rate.

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

Tax Character of Distributions to Shareholders Paid During the Years Ended December 31, 2011 and 2010:

	2011	2010
Ordinary income	$2,181,202	$2,364,336

Tax Components of Net Assets at Period-End:

	2011
Undistributed ordinary income	$ 2,146,288
Undistributed long-term gain	2,455,328
Net unrealized appreciation — investments	13,297,553
Net unrealized appreciation (depreciation) — other investments	(220)
Temporary book/tax differences	(54,348)
Shares of beneficial interest	54,988,912
Total net assets	$72,833,513

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is due to differences in the timing of recognition of gains and losses on investments for tax and book purposes. The Fund's net unrealized appreciation difference is attributable primarily to 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 Regulated Investment Company Modernization Act of 2010 (the "Act") eliminated the eight-year carryover period for capital losses that arise in taxable years beginning after its enactment date of December 22, 2010. Consequently, these capital losses can be carried forward for an unlimited period. However, capital losses with an expiration period may not be used to offset capital gains until all net capital losses without an expiration date have been utilized. Additionally, post-enactment capital loss carryovers will retain their character as either short-term or long-term capital losses instead of as short-term capital losses as under prior law. The ability to utilize capital loss 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 $1,436,392 of capital loss carryforward in the current period to offset net realized capital gain for federal income tax purposes.

The Fund does not have a capital loss carryforward at period-end.

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, 2011 was $9,006,583 and $12,237,260, 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	$14,266,523
Aggregate unrealized (depreciation) of investment securities	(968,970)
Net unrealized appreciation of investment securities	$13,297,553

Cost of investments for tax purposes is $59,429,916.

NOTE 8—Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of foreign currency transactions, on December 31, 2011, undistributed net investment income was decreased by $2,305 and undistributed net realized gain was increased by $2,305. This reclassification had no effect on the net assets of the Fund.

NOTE 9—Share Information

	Summary of Share Activity			
	Year ended December 31,			
	2011[(a)]		2010	
	Shares	Amount	Shares	Amount
Sold:				
Series I	951,541	$ 15,210,526	480,106	$ 6,843,415
Series II	16,357	261,142	7,837	110,711
Issued as reinvestment of dividends:				
Series I	136,473	2,123,528	160,460	2,309,020
Series II	3,727	57,674	3,865	55,316
Reacquired:				
Series I	(1,149,620)	(18,232,819)	(1,210,979)	(17,239,349)
Series II	(22,568)	(353,138)	(14,275)	(198,195)
Net increase (decrease) in share activity	(64,090)	$ (933,087)	(572,986)	$ (8,119,082)

(a) There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 47% of the outstanding shares of the Fund. The Fund and the Fund's principal underwriter or adviser, are parties to participation agreements with these entities whereby these entities sell units of interest in separate accounts funding variable products that are invested in the Fund. The Fund, Invesco and/or Invesco affiliates may make payments to these entities, which are considered to be related to the Fund, for providing services to the Fund, Invesco and/or Invesco affiliates including but not limited to services such as, securities brokerage, third party record keeping and account servicing and administrative services. The Fund has no knowledge as to whether all or any portion of the shares owned of record by these entities are also owned beneficially.

NOTE 10—Financial Highlights

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

	Net asset value, beginning of period	Net investment income[(a)]	Net gains (losses) on securities (both realized and unrealized)	Total from investment operations	Dividends from net investment income	Distributions from net realized gains	Total distributions	Net asset value, end of period	Total return[(b)]	Net assets, end of period (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 12/31/11	$14.87	$0.51	$ 1.90	$ 2.41	$(0.54)	$ —	$(0.54)	$16.74	16.45%	$ 70,956	0.92%[(d)]	1.04%[(d))]	3.23%[(d)]	14%
Year ended 12/31/10	14.51	0.47	0.43	0.90	(0.54)	—	(0.54)	14.87	6.30	63,945	0.92	1.04	3.25	13
Year ended 12/31/09	13.38	0.45	1.53	1.98	(0.68)	(0.17)	(0.85)	14.51	14.93	70,671	0.93	1.04	3.35	14
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	0.96	2.53	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
Series II														
Year ended 12/31/11	14.78	0.47	1.88	2.35	(0.50)	—	(0.50)	16.63	16.15	1,878	1.17[(d)]	1.29[(d)]	2.98[(d)]	14
Year ended 12/31/10	14.43	0.43	0.42	0.85	(0.50)	—	(0.50)	14.78	6.01	1,706	1.17	1.29	3.00	13
Year ended 12/31/09	13.30	0.41	1.52	1.93	(0.63)	(0.17)	(0.80)	14.43	14.61	1,702	1.18	1.29	3.10	14
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	1.21	2.28	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

(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) of $64,973 and $1,811 for Series I and Series II, respectively.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of AIM Variable Insurance Funds (Invesco Variable Insurance Funds)
and Shareholders of Invesco 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 Invesco V.I. Utilities Fund (one of the funds constituting AIM Variable Insurance Funds (Invesco Variable Insurance Funds), hereafter referred to as the "Fund") at December 31, 2011, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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, 2011 by correspondence with the custodian, provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

February 14, 2012
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, 2011 through December 31, 2011.

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 (07/01/11)	Ending Account Value (12/31/11)[1]	Expenses Paid During Period[2]	Ending Account Value (12/31/11)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$1,052.60	$4.77	$1,020.55	$4.70	0.92%
Series II	1,000.00	1,051.30	6.06	1,019.29	5.97	1.17

[1] The actual ending account value is based on the actual total return of the Fund for the period July 1, 2011 through December 31, 2011, after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's expense ratio and a hypothetical annual return of 5% before expenses.

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

Tax Information

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

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

The Fund designates the following amounts or, if subsequently determined to be different, the maximum amount allowable for its fiscal year ended December 31, 2011:

Federal and State Income Tax	
Corporate Dividends Received Deduction*	100%

* 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 is AIM Variable Insurance Funds (Invesco Variable Insurance Funds) (the "Trust"), 11 Greenway Plaza, Suite 2500, Houston, Texas 77046-1173. 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	Number of Funds in Fund Complex Overseen by Trustee	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 and a global investment management firm); Advisor to the Board, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.); Trustee, The Invesco Funds; Vice Chair, Investment Company Institute; and Member of Executive Board, SMU Cox School of Business Formerly: Chairman, Invesco Advisers, Inc. (registered investment adviser); Director, Chairman, Chief Executive Officer and President, IVZ Inc. (holding company), INVESCO Group Services, Inc. (service provider) and Invesco North American Holdings, Inc. (holding company); Director, Chief Executive Officer and President, Invesco Holding Company Limited (parent of Invesco and a global investment management firm); Director, Invesco Ltd.; Chairman, Investment Company Institute and President, Co-Chief Executive Officer, Co-President, Chief Operating Officer and Chief Financial Officer, Franklin Resources, Inc. (global investment management organization)	140	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, Co-Chairman, Co-President and Co-Chief Executive Officer, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser); Director, Chairman, Chief Executive Officer and President, Invesco Management Group, Inc. (formerly Invesco Aim Management Group, Inc.) (financial services holding company); Director and President, INVESCO Funds Group, Inc. (registered investment adviser and registered transfer agent); Director and Chairman, Invesco Investment Services, Inc. (formerly known as Invesco Aim Investment Services, Inc.) (registered transfer agent) and IVZ Distributors, Inc. (formerly known as INVESCO Distributors, Inc.) (registered broker dealer); Director, President and Chairman, Invesco Inc. (holding company) and Invesco Canada Holdings Inc. (holding company); Chief Executive Officer, Invesco Corporate Class Inc. (corporate mutual fund company) and Invesco Canada Fund Inc. (corporate mutual fund company); Director, Chairman and Chief Executive Officer, Invesco Canada Ltd. (formerly known as Invesco Trimark Ltd./Invesco Trimark Ltèe) (registered investment adviser and registered transfer agent); Trustee, President and Principal Executive Officer, The Invesco Funds (other than AIM Treasurer's Series Trust (Invesco Treasurer's Series Trust) and Short-Term Investments Trust); Trustee and Executive Vice President, The Invesco Funds (AIM Treasurer's Series Trust (Invesco Treasurer's Series Trust) and Short-Term Investments Trust only); Director, Invesco Investment Advisers LLC (formerly known as Van Kampen Asset Management); Director, Chief Executive Officer and President, Van Kampen Exchange Corp. Formerly: Director and Chairman, Van Kampen Investor Services Inc.: Director, Chief Executive Officer and President, 1371 Preferred Inc. (holding company); and Van Kampen Investments Inc.; Director and President, AIM GP Canada Inc. (general partner for limited partnerships); and Van Kampen Advisors, Inc.; Director and Chief Executive Officer, Invesco Trimark Dealer Inc. (registered broker dealer); Director, Invesco Distributors, Inc. (formerly known as Invesco Aim Distributors, Inc.) (registered broker dealer); Manager, Invesco PowerShares Capital Management LLC; Director, Chief Executive Officer and President, Invesco Advisers, Inc.; Director, Chairman, Chief Executive Officer and President, Invesco Aim Capital Management, Inc.; President, Invesco Trimark Dealer Inc. and Invesco Trimark Ltd./Invesco Trimark Ltèe; Director and President, AIM Trimark Corporate Class Inc. and AIM Trimark Canada Fund Inc.; Senior Managing Director, Invesco Holding Company Limited; Trustee and Executive Vice President, Tax-Free Investments Trust; Director and Chairman, Fund Management Company (former registered broker dealer); President and Principal Executive Officer, The Invesco Funds (AIM Treasurer's Series Trust (Invesco 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.	140	None
Wayne W. Whalen[3] — 1939 Trustee	2010	Of Counsel, and prior to 2010, partner in the law firm of Skadden, Arps, Slate, Meagher & Flom LLP, legal counsel to funds in the Fund Complex	158	Director of the Abraham Lincoln Presidential Library Foundation
Independent Trustees				
Bruce L. Crockett — 1944 Trustee and Chair	1993	Chairman, Crockett Technology Associates (technology consulting company) Formerly: Director, Captaris (unified messaging provider); Director, President and Chief Executive Officer COMSAT Corporation; and Chairman, Board of Governors of INTELSAT (international communications company)	140	ACE Limited (insurance company); and Investment Company Institute

[1] Mr. Flanagan is considered an interested person of the Trust because he is an officer of the adviser to the Trust, and an officer and a director of Invesco Ltd., ultimate parent of the adviser to the Trust.

[2] Mr. Taylor is considered an interested person of the Trust because he is an officer and a director of the adviser to, and a director of the principal underwriter of, the Trust.

[3] Mr. Whalen is considered an "interested person" (within the meaning of Section 2(a)(19) of the 1940 Act) of certain Funds in the Fund Complex by reason of he and his firm currently providing legal services as legal counsel to such Funds in the Fund Complex.

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Independent Trustees—(continued)				
David C. Arch — 1945 Trustee	2010	Chairman and Chief Executive Officer of Blistex Inc., a consumer health care products manufacturer.	158	Member of the Heartland Alliance Advisory Board, a nonprofit organization serving human needs based in Chicago. Board member of the Illinois Manufacturers' Association. Member of the Board of Visitors, Institute for the Humanities, University of Michigan
Frank S. Bayley — 1939 Trustee	2001	Retired Formerly: Director, Badgley Funds, Inc. (registered investment company) (2 portfolios) and Partner, law firm of Baker & McKenzie Formerly: Director, Badgley Funds, Inc. (registered investment company) (2 portfolios) and Partner, law firm of Baker & McKenzie	140	Director and Chairman, C.D. Stimson Company (a real estate investment company)
James T. Bunch — 1942 Trustee	2004	Managing Member, Grumman Hill Group LLC (family office private equity management) Formerly: Founder, Green, Manning & Bunch Ltd. (investment banking firm)(1988-2010); Executive Committee, United States Golf Association; and Director, Policy Studies, Inc. and Van Gilder Insurance Corporation	140	Vice Chairman, Board of Governors, Western Golf Association/Evans Scholars Foundation and Director, Denver Film Society
Rodney F. Dammeyer — 1940 Trustee	2010	President of CAC, LLC, a private company offering capital investment and management advisory services. Formerly: Prior to January 2004, Director of TeleTech Holdings Inc.; Prior to 2002, Director of Arris Group, Inc.; Prior to 2001, Managing Partner at Equity Group Corporate Investments. Prior to 1995, Vice Chairman of Anixter International. Prior to 1985, experience includes Senior Vice President and Chief Financial Officer of Household International, Inc., Executive Vice President and Chief Financial Officer of Northwest Industries, Inc. and Partner of Arthur Andersen & Co.	158	Director of Quidel Corporation and Stericycle, Inc. Prior to May 2008, Trustee of The Scripps Research Institute. Prior to February 2008, Director of Ventana Medical Systems, Inc. Prior to April 2007, Director of GATX Corporation. Prior to April 2004, Director of TheraSense, Inc.
Albert R. Dowden — 1941 Trustee	2000	Director of a number of public and private business corporations, including the Boss Group, Ltd. (private investment and management); Reich & Tang Funds (5 portfolios) (registered investment company); and Homeowners of America Holding Corporation/ Homeowners of America Insurance Company (property casualty company) Formerly: Director, Continental Energy Services, LLC (oil and gas pipeline service); Director, CompuDyne Corporation (provider of product and services to the public security market) and Director, Annuity and Life Re (Holdings), Ltd. (reinsurance company); Director, President and Chief Executive Officer, Volvo Group North America, Inc.; Senior Vice President, AB Volvo; Director of various public and private corporations; Chairman, DHJ Media, Inc.; Director Magellan Insurance Company; and Director, The Hertz Corporation, Genmar Corporation (boat manufacturer), National Media Corporation; Advisory Board of Rotary Power International (designer, manufacturer, and seller of rotary power engines); and Chairman, Cortland Trust, Inc. (registered investment company)	140	Board of Nature's Sunshine Products, Inc.
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), Discovery Global Education Fund (non-profit) and Cross Timbers Quail Research Ranch (non-profit) Formerly: Chief Executive Officer, Texana Timber LP (sustainable forestry company) and member of the U.S. House of Representatives	140	Administaff
Carl Frischling — 1937 Trustee	1993	Partner, law firm of Kramer Levin Naftalis and Frankel LLP	140	Director, Reich & Tang Funds (16 portfolios)

Trustees and Officers—(continued)

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Independent Trustees—(continued)				
Prema Mathai-Davis — 1950 Trustee	1998	Retired Formerly: Chief Executive Officer, YWCA of the U.S.A.	140	None
Larry Soll — 1942 Trustee	2004	Retired Formerly, Chairman, Chief Executive Officer and President, Synergen Corp. (a biotechnology company)	140	None
Hugo F. Sonnenschein — 1940 Trustee	2010	President Emeritus and Honorary Trustee of the University of Chicago and the Adam Smith Distinguished Service Professor in the Department of Economics at the University of Chicago. Prior to July 2000, President of the University of Chicago.	158	Trustee of the University of Rochester and a member of its investment committee. Member of the National Academy of Sciences, the American Philosophical Society and a fellow of the American Academy of Arts and Sciences
Raymond Stickel, Jr. — 1944 Trustee	2005	Retired Formerly: Director, Mainstay VP Series Funds, Inc. (25 portfolios) and Partner, Deloitte & Touche	140	None
Other Officers				
Russell C. Burk — 1958 Senior Vice President and Senior Officer	2005	Senior Vice President and Senior Officer, The Invesco Funds	N/A	N/A
John M. Zerr — 1962 Senior Vice President, Chief Legal Officer and Secretary	2006	Director, Senior Vice President, Secretary and General Counsel, Invesco Management Group, Inc. (formerly known as Invesco Aim Management Group, Inc.) and Van Kampen Exchange Corp.; Senior Vice President, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser); Senior Vice President and Secretary, Invesco Distributors, Inc. (formerly known as Invesco Aim Distributors, Inc.); Director, Vice President and Secretary, Invesco Investment Services, Inc. (formerly known as Invesco Aim Investment Services, Inc.) and IVZ Distributors, Inc. (formerly known as INVESCO Distributors, Inc.); Director and Vice President, INVESCO Funds Group, Inc.; Senior Vice President, Chief Legal Officer and Secretary, The Invesco Funds; Manager, Invesco PowerShares Capital Management LLC; Director, Secretary and General Counsel, Invesco Investment Advisers LLC (formerly known as Van Kampen Asset Management); Secretary and General Counsel, Van Kampen Funds Inc. and Chief Legal Officer, PowerShares Exchange-Traded Fund Trust, PowerShares Exchange-Traded Fund Trust II, PowerShares India Exchange-Traded Fund Trust and PowerShares Actively Managed Exchange-Traded Fund Trust Formerly: Director and Secretary, Van Kampen Advisors Inc.; Director Vice President, Secretary and General Counsel Van Kampen Investor Services Inc.; Director, Invesco Distributors, Inc. (formerly known as Invesco Aim Distributors, Inc.); Director, Senior Vice President, General Counsel and Secretary, Invesco Advisers, Inc.; and Van Kampen Investments Inc.; Director, Vice President and Secretary, Fund Management Company; Director, Senior Vice President, Secretary, General Counsel and Vice President, Invesco Aim Capital Management, Inc.; Chief Operating Officer and General Counsel, Liberty Ridge Capital, Inc. (an investment adviser); Vice President and Secretary, PBHG Funds (an investment company) and 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) and 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	N/A
Lisa O. Brinkley — 1959 Vice President	2004	Global Compliance Director, Invesco Ltd.; Chief Compliance Officer, Invesco Investment Services, Inc.(formerly known as Invesco Aim Investment Services, Inc.); and Vice President, The Invesco Funds Formerly: Chief Compliance Officer, Invesco Distributors, Inc. (formerly known as Invesco Aim Distributors, Inc.) and Van Kampen Investor Services Inc.; Senior Vice President, Invesco Management Group, Inc.; Senior Vice President and Chief Compliance Officer, Invesco Advisers, Inc. and The Invesco Funds; Vice President and Chief Compliance Officer, Invesco Aim Capital Management, Inc. and Invesco Distributors, Inc.; Vice President, Invesco Investment Services, Inc. and Fund Management Company	N/A	N/A

Trustees and Officers—(continued)

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Other Officers—(continued)				
Sheri Morris — 1964 Vice President, Treasurer and Principal Financial Officer	1999	Vice President, Treasurer and Principal Financial Officer, The Invesco Funds; Vice President, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser). Formerly: Treasurer, PowerShares Exchange-Traded Fund Trust, PowerShares Exchange-Traded Fund Trust II, PowerShares India Exchange-Traded Fund Trust and PowerShares Actively Managed Exchange-Traded Fund Trust, Vice President, Invesco Advisers, Inc., Invesco Aim Capital Management, Inc. and Invesco Aim Private Asset Management, Inc.; Assistant Vice President and Assistant Treasurer, The Invesco Funds and Assistant Vice President, Invesco Advisers, Inc., Invesco Aim Capital Management, Inc. and Invesco Aim Private Asset Management, Inc.	N/A	N/A
Karen Dunn Kelley — 1960 Vice President	1993	Head of Invesco's World Wide Fixed Income and Cash Management Group; Senior Vice President, Invesco Management Group, Inc. (formerly known as Invesco Aim Management Group, Inc.) and Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser); Executive Vice President, Invesco Distributors, Inc. (formerly known as Invesco Aim Distributors, Inc.); Director, Invesco Mortgage Capital Inc.; Vice President, The Invesco Funds (other than AIM Treasurer's Series Trust (Invesco Treasurer's Series Trust) and Short-Term Investments Trust); and President and Principal Executive Officer, The Invesco Funds (AIM Treasurer's Series Trust (Invesco Treasurer's Series Trust) and Short-Term Investments Trust only). Formerly: Senior Vice President, Van Kampen Investments Inc.; Vice President, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.); Director of Cash Management and Senior Vice President, Invesco Advisers, Inc. and Invesco Aim Capital Management, Inc.; President and Principal Executive Officer, Tax-Free Investments Trust; Director and President, Fund Management Company; Chief Cash Management Officer, Director of Cash Management, Senior Vice President, and Managing Director, Invesco Aim Capital Management, Inc.; Director of Cash Management, Senior Vice President, and Vice President, Invesco Advisers, Inc. and The Invesco Funds (AIM Treasurer's Series Trust (Invesco Treasurer's Series Trust), Short-Term Investments Trust and Tax-Free Investments Trust only)	N/A	N/A
Yinka Akinsola — 1977 Anti-Money Laundering Compliance Officer	2011	Anti-Money Laundering Compliance Officer, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser); Invesco Distributors, Inc. (formerly known as Invesco Aim Distributors, Inc.), Invesco Investment Services, Inc. (formerly known as Invesco Aim Investment Services, Inc.), Invesco Management Group, Inc., The Invesco Funds, Invesco Van Kampen Closed-End Funds, Van Kampen Exchange Corp. and Van Kampen Funds Inc.	N/A	N/A
Todd L. Spillane — 1958 Chief Compliance Officer	2006	Senior Vice President, Invesco Management Group, Inc. (formerly known as Invesco Aim Management Group, Inc.) and Van Kampen Exchange Corp.; Senior Vice President and Chief Compliance Officer, Invesco Advisers, Inc. (registered investment adviser) (formerly known as Invesco Institutional (N.A.), Inc.); Chief Compliance Officer, The Invesco Funds, INVESCO Private Capital Investments, Inc. (holding company) and Invesco Private Capital, Inc. (registered investment adviser); Vice President, Invesco Distributors, Inc. (formerly known as Invesco Aim Distributors, Inc.) and Invesco Investment Services, Inc. (formerly known as Invesco Aim Investment Services, Inc.). Formerly: Chief Compliance Officer, Invesco Van Kampen Closed-End Funds PowerShares Exchange-Traded Fund Trust, PowerShares Exchange-Traded Fund Trust II, PowerShares India Exchange-Traded Fund Trust, and PowerShares Actively Managed Exchange-Traded Fund Trust; Senior Vice President, Van Kampen Investments Inc.; Senior Vice President and Chief Compliance Officer, Invesco Advisers, Inc. and Invesco Aim Capital Management, Inc.; Chief Compliance Officer, Invesco Global Asset Management (N.A.), Inc., Invesco Senior Secured Management, Inc. (registered investment adviser) and Van Kampen Investor Services Inc.; Vice President, Invesco Aim Capital Management, Inc. and Fund Management Company	N/A	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-advisers.

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Houston, TX77046-1173

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

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A pooled funding vehicle for:

- **variable annuity contracts**
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- **qualified retirement plans**

The Alger Portfolios

Alger Balanced Portfolio

ANNUAL REPORT

December 31, 2011

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Dear Shareholders, *January 25, 2012*

Uncertainty and Change Dominate Markets

Much like the year that preceded it, 2011 was characterized by equity markets being seized more by a crisis of waning confidence and investors' deteriorating outlook than by stock fundamentals. Nevertheless, the S&P 500 Index finished 2011 with a 2.11% gain. Rising correlations among stocks and equity volatility resembling levels experienced in 2008 and early 2009 created a difficult environment for all fundamental investors, including Alger. We maintain that the best way to manage risk is to have in-depth knowledge of portfolio holdings. During the year, our highly knowledgeable and experienced analysts continued to focus on conducting rigorous research while seeking to identify fundamental changes within industries and companies that can drive growth in revenues and earnings. Stocks are ultimately valued on their present and expected future growth, earnings, and ability to generate free cash flow. In the long run, as Alger's historical investment record reflects, the market correctly values stocks on such fundamentals. However, there are periods when other factors dominate the overall market's direction and the valuation of individual stocks. Such factors, commonly gathered under the collective label of "macro" or "investor sentiment," can trump individual stock analysis for significant periods. We have been in such a period since 2008, with correlations among U.S. equities 75% higher than the average of the previous 80 years, according to Empirical Research Partners.

The idea that equity markets can be dominated by investor sentiment centered on macro factors is not irrational. Rather, it is quite natural when the pace of U.S. and global economic growth is uncertain. Investors' focus on macro issues is also to be expected because the nature of economic growth in the U.S. and other countries is shifting to new paradigms that are based on, as yet, unknown terms. Whether the basic principles of the U.S. economy, for example, its tax structure, subsidies (explicit and implicit), regulatory oversight, and the very nature of competition within industries, will remain on terms similar to those of the last 20 years is a legitimate question. This uncertainty and change stem from many of the ongoing global forces of change that were perhaps destined to cross paths, if not collide.

When uncertainty appears high, many investors find it difficult to remember and act based on the core belief that stock valuations are ultimately driven by differences among corporations' fundamentals. Today, excellent companies and poor ones trade at valuations more similar than different, and rise or fall, more often than not, together based on events unrelated to corporations' or industries' fundamentals. Many investors forget that companies and the people that work within them change constantly and that great companies adapt and, often, even excel during times of change and uncertainty. In 2011, "events" such as statements by European politicians as to their agreement or disagreement on solutions to the euro-zone crisis, the details of which are lacking, moved markets more than underlying company fundamentals. This development has occurred despite year-over-year quarterly earnings for the S&P 500 increasing every quarter since the fourth quarter of 2008.

It is quite clear that the rational behavior of crowds often, if not always, results in a great number of individual errors, some of gigantic proportions. This occurred in 2011, when investors fled U.S. stocks and equities from other countries, leaving us with astounding anomalies, such as investors' continuing preference for 10-year U.S. Treasuries yielding 1.94% at the end of 2011 compared to the 2.11% yield of the S&P 500. This is a rare phenomenon that shows, at present, no sign of regressing. Similarly, continued improvement in U.S. corporate fundamentals – S&P 500 reported earnings in 2011 were $89.87, up over 16% from 2010 and operating earnings were $96.90 – did not translate into significant price gains for the index for the year. Historical averages would suggest the S&P 500 would be fairly valued at approximately 1500, instead of at 1257 as of the end of 2011. At 1500, the S&P would have a trailing price-to-earnings ratio of 16.9, compared to the actual P/E at year-end of 13.99, the second lowest P/E ratio in the last 20 years.

Have Investors Lost Sight of Reality?

At the end of 2011, 10-year Treasury bonds yielded only 1.94%, causing us to ask, have investors lost sight of reality? Inflation, both the government reported kind and the real one we live with is distinctly higher than 2%, thus Treasury bonds are very likely to produce negative real returns. Many high-quality dividend paying companies have dividend yields exceeding 2% and offer 10-year return potential that, in our opinion, is likely to be vastly superior to Treasury bonds. Companies are dynamic entities that can, in varying degrees, adjust to higher costs and still grow profit margins or earnings, despite inflation. For long-term investors, we believe the odds of generating positive real returns are distinctly in favor of equity investors.

Inflation should be viewed from somewhat different perspectives by investors, consumers, and companies. First, while inflation in the future will reduce the value of the dollar on a real basis, we don't believe it will reduce Americans' living standard. Certain costs may rise, but there is also frequently a rise in the quality of goods or services. Government statistics on inflation make adjustments for changes in quality that can be distorting in either direction. For example, in terms of housing costs, adjustments are made for both the size and features of the "average" American home which tend, in our view, to under-report the rate of inflation in housing over long periods of time. The American home in 2012 is larger, better equipped, and thus "better" than that same home in 1950.

In many cases, the costs of goods and services that are part of the quality of modern lifestyles are, in a real sense, falling, not rising. Electronics products are an example. Though consumers who must have "the latest and greatest" devices and capabilities may experience "inflation" (i.e., the cost to continually be the first to own the "latest and greatest" in computing does increase annually), technology prices have decreased dramatically while the functionality of computing and communications has risen because of new features, faster speeds, and greater storage capacity. The same is true of air travel and tourism, whose affordability has increased dramatically since the dawn of the Jet Age to today's online travel market of Priceline.com Inc. Of course, for many other goods and services, inflation has been well above the 2 or 3% reported in recent years. One example is the television subscription fee for ESPN, which has climbed 42% since 2006, and is expected to rise even further and at a faster rate following a new NFL contract which costs 60% more.

In sum, it's very difficult to capture the real effect of inflation, or its absence, across the modern economy. However, economic theory suggests that the output in quantity and variety produced by our system, in economic terms, is a strong indication of the true answer. American capitalism, flawed and imperfect as any human system will be, has produced these common goods and services at lower, not higher, real costs to the U.S. consumer. The strongest evidence of the success of the American economic system surrounds us – observe the array of goods and services available to Americans at an extraordinary variety of price points, quality, features, and locations. It is basic economics that such success benefits all in the system – not only the most successful, and not to the exclusion of those less successful.

These observations may seem obvious and raise the question why we have bothered to spill so much ink on them. The answer lies in two observations. First, is the pessimism of most investors about the future of the U.S. economy. The other, closely related, is the frequency of media headlines depicting the decline of America. For example, the Washington Post recently published an article called "A Bleak Look at America's Future" and Foreign Affairs magazine recently featured a cover article titled "Is America Over?" This echo chamber of media bites does have a dampening effect on consumer behavior and on businesses leaders who are deciding on whether to invest for growth or pause and save. Perhaps, this explains the reaction of investors in 2011 that withdrew from U.S. and global equities and continued their march into "safe havens" such as U.S. Treasuries and intermediate bond funds. This dampening effect has certainly impacted Europe, as the policies of austerity, combined with the psychological trauma of uncertainty regarding taxes, delayed retirements, new regulations, and other matters, cause companies and consumers to be, regardless of their own individual well being, more cautious and reluctant to engage in new ventures than they otherwise would have been.

Some of this austerity is necessary because the debt-driven consumption and the consequent over-investment of the past was not sustainable long term. In the future, it cannot be the solution to the problems of the U.S. or Europe. American households have been making progress in this area. According to the Federal Reserve, the overall debt-to-income ratio has improved substantially since the third quarter of 2007 and Americans' debt-to-assets ratio has improved since the first quarter of 2009. Corporations in the U.S., meanwhile, have done a remarkable job in managing their income and balance sheets. As a whole, corporate America is very healthy and competitive relative to the rest of the world, and we should all be glad for that strength and resilience in the face of tremendous global change.

The opportunity to invest in the dynamic change occurring in the U.S. is as exciting today as it has ever been. Bull markets do not start with investors cheering equities, but instead typically start at the peak of capitulation. We believe the U.S. is in the early stages of a new bull market, and encourage our readers and clients to think, as we're outlining here, about the future optimistically, despite headlines and the current herd mentality.

An Interesting 2012

There are three likely market scenarios for 2012. Two of them could result in dramatically higher U.S. equity valuations by the end of the year. The third is, simply put, more of the same, with the economy, the nation, and the equity markets treading water and going nowhere. The two that offer upside potential, which combined we assign an 80% probability of occurring, will take dramatically different paths but have the same results.

In the first scenario, we see either the markets rioting through significant downward volatility, such as a 15 to 20% decline. It would be European led, but U.S. and emerging markets would be impacted, thus forcing European political bodies to act – and act decisively and comprehensively—to address the structural problems in Europe. We at Alger feel this scenario is most likely, and in effect would play out like 2009 – dramatic downside in the markets, with declines being the most significant in Europe and emerging markets, in the first half of 2012, followed by a more dramatic recovery in the second half of the year, especially in U.S. equities. The S&P 500 would end the year at 1500 or higher, eclipsing the post-financial crises high of 1350 reached in the summer of 2011.

The second scenario is cheerier. It involves European leaders surprising the markets early in 2012 by acting comprehensively to "ring fence" Italy and Spain without further true rioting by the markets. For the latter scenario to play out, European leaders must act early in 2012, or we think it is likely that markets lose patience and riot, resulting in our first scenario. We are encouraged to note that bond markets responded very favorably to some recent steps in Europe with near shocking drops in yields. For example, yields of Spanish 10-year Treasury bonds dropped from approximately 6.5% in November to 5.03% in December. But we're suspicious of such volatility as it's just as susceptible to swing the other way until a comprehensive solution is enacted.

The third, and our lowest probability scenario, but one sparking debate at Alger, involves markets in 2012 continuing to be volatile and lacking direction. Thus, we would end 2012 pretty much where we are today. The main argument for this view is that while either scenario one or two above must play out in 2012, the U.S. markets, rather than responding positively to the resolution of the euro-zone crisis, could turn their attention to the political gridlock in the U.S., including issues such as deficit spending, and find it a reason to do nothing. It is reasonable to believe that, on a policy basis, little is likely to be clarified until the November presidential election. As reported by the New York Times, President Obama is busy campaigning, already having logged more campaign travel time at this point than any of his recent predecessors and will clearly have more campaigning in the near future. Finally, the Congressional Super Committee on the budget turned out to be anything but super. Surprisingly, many seem happy with the automatic cuts across the board, rather than with actual policy-making between our political parties.

We give our third scenario a low probability because it suggests that the current positive progress in the fundamentals of U.S. equities, despite economic weakness and uncertainty, will dramatically end even if the euro-zone crisis macro factor is lifted. It would mean investors don't acknowledge or reward the very sound state of U.S. corporate fundamentals.

We think a European recession in the form of modest to flat earnings growth in 2012 is likely priced into U.S. equities. A large scale U.S.-profit recession is, in our view, highly unlikely, even assuming a significant European recession and the collateral effect of slowing emerging markets economic growth. There are many convincing reasons for this. First, though the U.S. housing and automobile markets remain at low levels historically, the American auto industry is recovering while real estate appears to have firmly bottomed. Improvements within those sectors are likely in both 2012 and 2013, and will support stronger U.S. economic growth. Second, emerging markets have been loosening their monetary policies, which will support export-related growth in the U.S., and more importantly, investor confidence in the longer term growth rates for U.S. companies that are succeeding overseas. That confidence can eventually translate into higher P/E multiples, even if near-term growth rates are dampened by a euro-zone recession. Finally, conditions in the U.S. economy around labor, real estate, financing, and other inputs to corporate fundamentals suggest that the current high level of both profit margins and free cash flow with U.S. companies is not a fluke, but instead structural and likely to be maintained.

Rules, Regulations, and Restrictions

Our greatest long-term risk in the U.S. is economic policy, which the electorate will sort out in the next election. Lawmakers need to address the rapidly increasing regulatory burden and policy misdirection in the U.S. that shows no sign of abating. Americans are reminded of this burden every year, with the complexity of our tax code, but also in respect to the licenses and approvals required to start a business or enter a profession. This country's prosperity is due in large part to thousands of small businesses that are challenged by heavy regulations and will likely be challenged by proposed regulations. For example, a debate on imposing a sales tax on Internet sales is moving forward without regard to its harm to smaller retailers. While the largest Internet-based operators, such as Amazon.com, Inc. and Ralph Lauren Corp., can bear the burden of collecting state sales taxes across 50 states, the tens of thousands of smaller and not-so-small Internet-based retailers likely cannot. A New York Times article recently noted that the cost of collecting sales taxes and the implementation and monitoring of the systems to collect, remit, and account for such sales taxes might exceed 13% of sales for smaller businesses. For many businesses, that is likely to represent the bulk, if not all, of their profits. Large businesses may criticize overregulation, but to a great extent, they benefit from it as it places a much greater burden on their fiercest competitors, the successful small- and mid-size companies that are innovators.

Why has regulation disguised as "policy" grown in the U.S., regardless of which political party is in power? Because the clear winners of an increased regulatory and "policy-making" environment are lawyers. Yet, where are the media articles examining whether more lawyers and legal services are productive uses of human and financial capital? It may be no surprise that lawyers comprised 8.4% of the people in the top 1% in income in 2005 and, almost assuredly, have since risen as a percentage of that group. Since 1960, the number of lawyers per capita in the United States has grown 2 ½ times, from less than 14 per 10,000 people in 1960 to more than 38 per 10,000 in 2010. The U.S. has the highest ratio of lawyers in the world, a staggering four times the world average, according to recent research (Magee, University of Texas, "The Optimum Number of Lawyers"). While our Congress and President have accomplished little in addressing America's economic and fiscal future in the last several years (and longer, as the problem is multi-generational politically), much of the lack of progress creates a boom for lawyers who write, fight, and encourage legislation, whether in the courts, Congress, or the halls of bureaucracy centered in Washington, but with branches in all 50 states.

And then, of course, there is the private legal system and its version of a "full employment" policy for lawyers, which is the frivolous lawsuit. Regardless of how frivolous or misconceived a case may be, targets of lawsuits must pay for their defense costs and, even if they win, the costs for their defense aren't shifted to plaintiffs. Regardless of the outcome, lawyers on both sides win as they are compensated handsomely. It's different in England, the country which supplied the foundation for our legal system. Plaintiffs pay for the defense when they lose, something the U.S. should consider if we want to move away from our more litigious culture. Unfortunately, with the high number of lawyers employed in government, legal reform will not be in the best interest of the very individuals who govern and their staff, a high number of whom rely on the revolving door between government employment and private legal practice. The burden of our legal system is a high price to pay for the "right" to sue, especially when considering the nature of many lawsuits. For example, in November, parents of students on the Atrisco Heritage Academy high school football team filed a legal complaint seeking to have the athletes enter the New Mexico state finals. The team didn't make the cut in November because it lost its last game of its season. The litigation claimed that a referee incorrectly allowed the game clock to run out, which prevented the team from kicking a potentially game-winning field goal. Judge Shannon Bacon in the Second Judicial District of New Mexico eventually dismissed the litigation, explaining that the court does not serve as a "super referee" for sporting events. Is this an efficient use of resources?

How Much Should the Top 0.1% Contribute?

When evaluating taxation, it's clear that the nation risks policy missteps. The rising rancor of debate about inequality in America is an example. We're not taking sides, but we note that the astonishing lack of factual discussion (versus the current biased argument) is confirmation of the polarization of politics. In discussions about the top 1%, there are, we think, some serious oversights, or at least glossing over of reality. The 1.35 million taxpayers in this category include many successful business owners and hard working Americans who have an incentive to contribute to the success of our economy, to create jobs, and to realize the American Dream.

Regarding the top 0.1%, the average annual income is over $30 million, much of which is derived from equity and bond investing and is taxed at lower rates. We do agree with Warren Buffett and others that the truly wealthy should pay a higher tax rate than they currently do. Mr. Buffett makes great press discussing his low tax rate, but how many ordinary Americans are in a similar situation? His salary as CEO and Chairman of Berkshire Hathaway is $100,000, yet with his investments, his adjusted gross income for 2010 reached $62,855,038! When he needs money, he can sell stock from his personal investments or take income from the proceeds of a prior stock sale. Those options are simply not available to nearly all Americans. We also believe loopholes such as the treatment of carried interest for hedge funds and private equity funds should be closed as they are egregious handouts unnecessary to incentivize productive behavior. We must be careful, however, in the treatment of capital gains. America needs to encourage productive investment, of all kinds, here at home. Those willing to risk hard-earned, once taxed, savings or capital to invest should be treated favorably until they reach the top 0.1%. Capital, unlike labor, is a globally competitive arena for U.S. dollars, and there are many places in the world that have either no capital gains tax or capital gains taxes that are lower than the U.S. We must also be exceedingly careful about taxes on corporate profits of even very successful but ultimately not giant companies. They are the job creators, the innovators, and the competition that keeps the markets vital and the "too big to fail" at least somewhat responsive to growth opportunities in the U.S. Here too, the current tax code gives the largest companies an advantage, as in the case of General Electric Company which paid no corporate tax in 2010, while smaller companies routinely pay in excess of 40% of their profits in federal and state taxes, a rate that may be too high for businesses to be willing to invest and grow.

We should also note that in the top 0.1%, we have major forces we cannot control: globalization and Internet technology. The accelerated increase in the wealth of participants in these areas to some extent arises from using the Internet to leverage talents, companies, brands, and thus revenues in a global marketplace, at both speed and lower costs that were previously unimaginable. Examples are easy to see in our cultural icons – whether they are Oprah Winfrey or Kobe Bryant – who are, today, marketable across the globe, thanks in part to our country's success in attracting billions of people across the world to, in effect, the U.S. lifestyle. But this effect is not limited to the cultural elite: it is also true for many businesses and the owners or managers that have taken advantage of globalization and the Internet to lead their companies into worldwide markets with previously unimaginable success. In the case of Steve Jobs, for example, we should be applauding his success, not decrying the result the Internet has had on his wealth, because if American businesses and entrepreneurs did not succeed in the global marketplace, the vacuum would be filled by others. It's not a matter of preventing the advance of information technology and the success of entrepreneurs. Rather, it's a matter of whether our country can continue producing the businesses and people to lead in coming years in the battleground that is set.

Many of our problems today stem from the use of government subsidies specific to certain projects or industries that have won political favor. Government should not be the allocator of capital as this can lead to misdirection and, sometimes, misuse, of capital as in the case of the solar subsidies wasted on Solyndra, a company that specialized in solar energy technology for rooftops. Alternative energy, in many forms, should be incentivized from a perspective of investing in research and development, stimulating jobs, and reducing America's reliance on imported fuel. But the correct way to encourage the adoption of solar energy is to incentivize Americans to purchase alternative energy sources and let the consumer choose the best products. In other words, let the market create competition. With solar power, for example, the types of distribution systems, such as rooftop solar panels or solar energy generated and distributed by utility companies, should be encouraged and not be determined by government decisions, such as the case of Solyndra.

Going Forward

It's clear to us at Alger that U.S. companies are doing an admirable job in difficult times. Uncertainty is not an acceptable management strategy, so businesses are continuing to move forward and seek opportunities to grow, even as Washington dithers. Despite our many concerns about the state of U.S. policy-making, we remain confident in the fundamental strength of our economic system and the vitality and creativity of corporate America – in its people and in its structure – to continue to define excellence in the global marketplace. We note that even on some of its broadest measures, the U.S. economy continues to show its strength. Thus, even in the hard pressed manufacturing sector there are signs of improvement. For example, Japanese auto company Honda Motor Co. plans to ramp up manufacturing in the U.S., which is expected to create thousands of jobs. As part of the initiative, Honda expects to double the capacity of its Greensburg, Indiana, plant to produce 200,000 cars a year, which will require the company to add 1,000 workers there. While the decision has been driven, in part, by the strength of the yen, we maintain that it is also a vote of confidence in U.S. manufacturing. On a broader scale, the economy is getting a boost from exporting, with the value of goods exported as a percentage of GDP growing from 7.3% in the first quarter of 2009 to 9.9% in the third quarter of 2011, according to the U.S. Department of Commerce. During the same period, the value of goods produced in the U.S. grew from approximately 25% of GDP to 28%.

Alger believes this is an exciting time for investors. Our research-driven and time-tested strategy for finding companies that can benefit from large-scale changes, such as those involving consumers, technology, emerging markets, and the economy is highly appropriate for these challenging times and, we believe, one which offers our clients potential for achieving attractive long-term performance.

Portfolio Matters

The Alger Balanced Portfolio returned 0.03% for the one-year period ended December 31, 2011. The equity portion of the Portfolio underperformed the 2.64% return of the Russell 1000 Growth Index, and the fixed-income portion trailed the 8.74% return of the Barclays Capital U.S. Government/Credit Bond Index.

Regarding the equity portion of the Portfolio, the largest sector weightings were in the Information Technology and Energy sectors. The largest sector overweight for the period was in Financials and the largest sector underweight for the period was in Consumer Discretionary. Relative outperformance in the Health Care and Industrials sectors was the most important contributor to performance, while Financials and Consumer Discretionary detracted from results.

Among the most important relative contributors were Pfizer, Inc.; Cisco Systems, Inc.; Chevron Corp.; Google, Inc.; and CVS Caremark Corp. Google, which is a search engine and advertising firm, posted third quarter revenues and earnings that exceeded optimistic expectations. The company disclosed that spending by its 1000 largest advertisers increased over 100% year over year.

Conversely, detracting from overall results on a relative basis were Corning, Inc., Exxon Mobil Corp.; Citigroup Inc.; OpenTable, Inc.; and McDonald's Corp. OpenTable provides an electronic restaurant reservation book used by roughly 15,000 restaurants in the U.S. Its stock performance was weak late in the year after the company announced disappointing third quarter earnings.

Regarding the fixed-income portion of the Portfolio, as of December 31, 2011, 77% was in corporate securities and 23% was in U.S. Treasuries. During the year, the number of securities held was reduced from 85 to 21. The average maturity was shortened and the overall quality of holdings was improved. There was minimal trading activity later in the year as opportunities were difficult to locate. We believe the fixed-income portion of the Portfolio is well positioned for a potential rising rate environment, although rates will probably remain at current levels for the first half of 2012. Economic uncertainty worldwide continues, so we believe that reducing the number of fixed-income holdings in the Portfolio and focusing on quality as opposed to chasing yield will be a prudent strategy in 2012.

As always, we strive to deliver consistently superior investment results for you, our shareholders, and we thank you for your business and your continued confidence in Alger.

Respectfully submitted,

Daniel C. Chung, CFA
Chief Investment Officer

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

This report and the financial statements contained herein are submitted for the general information of shareholders of The Alger Portfolios. This report is not authorized for distribution to prospective investors in the Portfolios unless proceeded or accompanied by an effective prospectus. Individual Portfolio returns represent the fiscal 12-month period return of Class I-2 shares. Returns include reinvestment of dividends and distributions.

The performance information quoted in this material represents past performance, which is not an indication or a guarantee of future results.

Standard performance results can be found on the following pages. The investment return and principal value of an investment in a fund 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 Alger Portfolio's management in this report are as of the date of the Shareholders Letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a Portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a fund 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, 2011. Securities mentioned in the Shareholders Letter, if not found in the Schedule of Investments, may have been held by the Portfolios during the 12-month fiscal period.

A Word about Risk

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

Before investing, carefully consider a Portfolio's investment objective, risks, charges, and expenses.

For a prospectus or a summary prospectus containing this and other information about the Alger Funds call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing.

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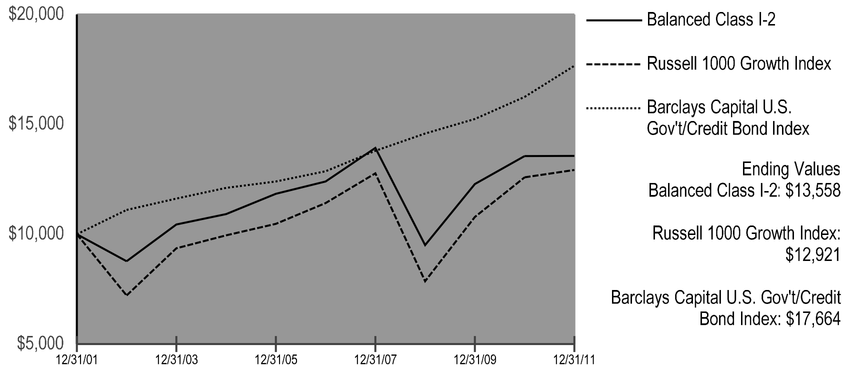
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- Standard & Poor's 500 Index (S&P 500 Index) is an index of 500 leading companies in leading industries in the United States.
- Empirical Research Partners provides research on a variety of investment topics for institutional investors.
- Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The Barclays Capital U.S. Government/Credit Bond Index tracks the performance of government and corporate bonds.

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

— 10 years ended 12/31/11



The chart above illustrates the change in value of a hypothetical $10,000 investment made in Alger Balanced Portfolio Class I-2 shares, the Russell 1000 Growth Index (an unmanaged index of common stocks) and the Barclays Capital U.S. Gov't/Credit Bond Index (an unmanaged index of government and corporate bonds) for the ten years ended December 31, 2011. Figures for each of the Alger Balanced Portfolio Class I-2 shares, the Russell 1000 Growth Index and the Barclays Capital U.S. Gov't/Credit Bond Index include reinvestment of dividends and interest.

PERFORMANCE COMPARISON AS OF 12/31/11

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	0.03%	1.81%	3.09%	7.31%
Class S (Inception 5/1/02)(i)	n/a	n/a	n/a	n/a
Russell 1000 Growth Index	2.64%	2.50%	2.60%	7.69%
Barclays Capital U.S. Gov't/Credit Bond Index	8.74%	6.55%	5.85%	7.12%

The performance data quoted represents past performance, which is not an indication or a guarantee of future results. Investment return and principal will fluctuate and the Portfolio's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. For performance current to the most recent month end, visit us at www.alger.com or call us at (800) 992-3863.

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

(i) *Since inception returns are calculated from Class I-2 inception date. Class S shares returns prior to their commencement of operations are that of Class I-2 shares adjusted to reflect the higher expenses of Class S shares.*

Portfolio Summary†

December 31, 2011 *(Unaudited)*

SECTORS/SECURITY TYPES	
Consumer Discretionary	6.7%
Consumer Staples	5.8
Energy	6.2
Financials	2.7
Health Care	5.4
Industrials	6.7
Information Technology	15.9
Materials	3.5
Telecommunication Services	0.3
Total Equity Securities	53.2%
Corporate Bonds	30.9%
U.S. Government & Agency Obligations (excluding Mortgage Backed)	9.3
Total Debt Securities	40.2%
Short-Term and Net Other Assets	6.6%
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—53.2%	SHARES	VALUE
AEROSPACE & DEFENSE—1.1%		
Boeing Co., /The	7,600	$ 557,460
General Dynamics Corp.	6,800	451,588
United Technologies Corp.	1,900	138,871
		1,147,919
AIR FREIGHT & LOGISTICS—1.3%		
FedEx Corp.	7,800	651,378
United Parcel Service, Inc., Cl. B	8,600	629,434
		1,280,812
AIRLINES—0.3%		
Delta Air Lines, Inc.*	36,500	**295,285**
APPLICATION SOFTWARE—0.4%		
Adobe Systems, Inc. *	13,700	387,299
Salesforce.com, Inc. *	500	50,730
		438,029
ASSET MANAGEMENT & CUSTODY BANKS—0.9%		
BlackRock, Inc.	1,900	338,656
Blackstone Group LP	44,800	627,648
		966,304
AUTO PARTS & EQUIPMENT—0.5%		
Johnson Controls, Inc.	14,700	**459,522**
AUTOMOBILE MANUFACTURERS—0.4%		
Ford Motor Co.*	38,600	**415,336**
BIOTECHNOLOGY—0.6%		
Gilead Sciences, Inc.*	16,048	**656,845**
CABLE & SATELLITE—1.0%		
Comcast Corp., Cl. A	28,900	680,884
DISH Network Corp.	10,600	301,888
		982,772
CASINOS & GAMING—0.7%		
Las Vegas Sands Corp. *	12,900	551,217
Wynn Resorts Ltd.	1,200	132,588
		683,805
COAL & CONSUMABLE FUELS—0.3%		
Peabody Energy Corp.	8,700	**288,057**
COMMUNICATIONS EQUIPMENT—2.5%		
Cisco Systems, Inc.	29,400	531,552
Corning, Inc.	46,400	602,272
Juniper Networks, Inc. *	11,100	226,551
QUALCOMM, Inc.	19,900	1,088,530
		2,448,905
COMPUTER HARDWARE—3.1%		
Apple, Inc.*	7,600	**3,078,000**
COMPUTER STORAGE & PERIPHERALS—1.1%		
EMC Corp. *	32,400	697,896

COMMON STOCKS—(CONT.)	SHARES	VALUE
COMPUTER STORAGE & PERIPHERALS—(CONT.)		
NetApp, Inc. *	12,200	$ 442,494
		1,140,390
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—1.0%		
Caterpillar, Inc.	7,500	679,500
Cummins, Inc.	3,500	308,070
		987,570
CONSUMER FINANCE—0.3%		
American Express Co.	6,900	**325,473**
DATA PROCESSING & OUTSOURCED SERVICES—0.6%		
Mastercard, Inc.	1,600	**596,512**
DIVERSIFIED CHEMICALS—0.9%		
Dow Chemical Co., /The	13,700	394,012
EI Du Pont de Nemours & Co.	12,400	567,672
		961,684
DIVERSIFIED METALS & MINING—1.0%		
Cliffs Natural Resources, Inc.	5,000	311,750
Freeport-McMoRan Copper & Gold, Inc.	12,300	452,517
Walter Energy, Inc.	4,200	254,352
		1,018,619
DRUG RETAIL—1.1%		
CVS Caremark Corp.	19,900	811,522
Walgreen Co.	10,700	353,742
		1,165,264
ELECTRICAL COMPONENTS & EQUIPMENT—0.4%		
Emerson Electric Co.	9,600	**447,264**
ENVIRONMENTAL & FACILITIES SERVICES—0.5%		
Republic Services, Inc.	18,500	**509,675**
FERTILIZERS & AGRICULTURAL CHEMICALS—0.5%		
Mosaic Co., /The	9,800	**494,214**
FOOTWEAR—0.5%		
NIKE, Inc., Cl. B	4,800	**462,576**
GENERAL MERCHANDISE STORES—0.6%		
Target Corp.	12,300	**630,006**
GOLD—0.4%		
Goldcorp, Inc.	8,100	**358,425**
HEALTH CARE EQUIPMENT—0.2%		
Covidien PLC	4,400	**198,044**
HEALTH CARE SERVICES—0.7%		
Express Scripts, Inc.*	16,400	**732,916**
HOME IMPROVEMENT RETAIL—0.8%		
Lowe's Companies, Inc.	30,200	**766,476**
HOTELS RESORTS & CRUISE LINES—0.9%		
Carnival Corp.	13,900	453,696

COMMON STOCKS—(CONT.)	SHARES	VALUE
HOTELS RESORTS & CRUISE LINES—(CONT.)		
Starwood Hotels & Resorts Worldwide, Inc.	10,700	$ 513,279
		966,975
HOUSEHOLD PRODUCTS—1.1%		
Procter & Gamble Co., /The	17,500	**1,167,425**
HYPERMARKETS & SUPER CENTERS—0.6%		
Wal-Mart Stores, Inc.	10,900	**651,384**
INDUSTRIAL CONGLOMERATES—0.6%		
Tyco International Ltd.	12,200	**569,862**
INDUSTRIAL GASES—0.3%		
Air Products & Chemicals, Inc.	3,600	**306,684**
INDUSTRIAL MACHINERY—0.9%		
Eaton Corp.	10,300	448,359
Ingersoll-Rand PLC	1,000	30,470
Stanley Black & Decker, Inc.	6,800	459,680
		938,509
INTEGRATED OIL & GAS—3.6%		
Chevron Corp.	9,500	1,010,800
Exxon Mobil Corp.	18,900	1,601,964
Royal Dutch Shell PLC #	14,000	1,023,260
		3,636,024
INTERNET RETAIL—0.9%		
Amazon.com, Inc.*	6,000	**1,038,600**
INTERNET SOFTWARE & SERVICES—3.7%		
Baidu, Inc. #*	2,900	337,763
eBay, Inc. *	17,250	523,193
Google, Inc., Cl. A *	3,200	2,066,880
OpenTable, Inc. *	12,900	504,777
Yahoo! Inc. *	15,800	254,854
		3,687,467
IT CONSULTING & OTHER SERVICES—1.5%		
Cognizant Technology Solutions Corp., Cl. A *	5,900	379,429
International Business Machines Corp.	6,500	1,195,220
		1,574,649
LIFE SCIENCES TOOLS & SERVICES—0.4%		
Thermo Fisher Scientific, Inc.*	9,400	**422,718**
MANAGED HEALTH CARE—1.2%		
Aetna, Inc.	10,100	426,119
Cigna Corp.	9,500	399,000
UnitedHealth Group, Inc.	8,100	410,508
		1,235,627
MOVIES & ENTERTAINMENT—0.4%		
Walt Disney Co., /The	10,300	**386,250**
OIL & GAS EQUIPMENT & SERVICES—1.4%		
Baker Hughes, Inc.	10,900	530,176
National Oilwell Varco, Inc.	400	27,196

COMMON STOCKS—(CONT.)	SHARES	VALUE
OIL & GAS EQUIPMENT & SERVICES—(CONT.)		
Schlumberger Ltd.	13,300	$ 908,523
		1,465,895
OIL & GAS EXPLORATION & PRODUCTION—0.9%		
Anadarko Petroleum Corp.	4,800	366,384
Devon Energy Corp.	5,600	347,200
Nexen, Inc.	13,600	216,376
		929,960
OTHER DIVERSIFIED FINANCIAL SERVICES—1.2%		
BM&F Bovespa SA L2	75,000	394,483
JPMorgan Chase & Co.	23,300	774,724
		1,169,207
PAPER PRODUCTS—0.4%		
International Paper Co.	15,000	**444,000**
PHARMACEUTICALS—2.3%		
Johnson & Johnson	15,200	996,815
Pfizer, Inc.	31,320	677,765
Teva Pharmaceutical Industries Ltd. #	14,200	573,112
		2,247,692
RAILROADS—0.6%		
CSX Corp.	29,600	**623,376**
SEMICONDUCTORS—1.0%		
Broadcom Corp., Cl. A *	16,700	490,312
Intel Corp.	14,300	346,775
Micron Technology, Inc. *	23,400	147,186
Texas Instruments, Inc.	1,000	29,110
		1,013,383
SOFT DRINKS—2.2%		
Coca-Cola Co., /The	13,200	923,604
PepsiCo, Inc.	17,900	1,187,665
		2,111,269
SPECIALIZED FINANCE—0.3%		
CME Group, Inc.	1,328	**323,594**
SYSTEMS SOFTWARE—2.0%		
Check Point Software Technologies Ltd. *	3,200	168,128
Microsoft Corp.	27,050	702,218
Oracle Corp.	35,500	910,575
VMware, Inc., Cl. A *	3,500	291,165
		2,072,086
TOBACCO—0.8%		
Philip Morris International, Inc.	10,300	**808,344**
WIRELESS TELECOMMUNICATION SERVICES—0.3%		
American Tower Corp., Cl. A	5,900	**354,059**
TOTAL COMMON STOCKS (Cost $52,047,539)		**54,081,738**

CORPORATE BONDS—30.9%	PRINCIPAL AMOUNT	VALUE
COMMUNICATIONS EQUIPMENT—1.4%		
Cisco Systems, Inc., 5.50%, 2/22/16L2	$ 1,250,000	**$ 1,456,031**
COMPUTER HARDWARE—3.9%		
Dell, Inc., 3.10%, 4/1/16L2	1,750,000	1,852,554
Hewlett-Packard Co., 2.13%, 9/13/15L2	2,000,000	1,966,523
		3,819,077
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—1.7%		
Republic Services, Inc., 1.85%, 9/15/16L2	1,750,000	**1,767,082**
DIVERSIFIED BANKS—2.1%		
Wells Fargo & Co., 3.68%, 6/15/16L2	2,000,000	**2,092,138**
HEALTH CARE EQUIPMENT—2.3%		
Baxter International, Inc., 5.90%, 9/1/16L2	2,000,000	**2,383,232**
HYPERMARKETS & SUPER CENTERS—2.1%		
Wal-Mart Stores, Inc., 2.80%, 4/15/16L2	2,000,000	**2,139,772**
INDUSTRIAL CONGLOMERATES—2.2%		
General Electric Capital Corp., 5.63%, 9/15/17L2	2,000,000	**2,216,270**
INTEGRATED OIL & GAS—2.0%		
Total Capital SA, 2.30%, 3/15/16L2	2,000,000	**2,054,702**
INTEGRATED TELECOMMUNICATION SERVICES—3.8%		
AT&T, Inc., 2.50%, 8/15/15L2	2,000,000	2,072,730
Verizon Communications, Inc., 2.00%, 11/1/16*,L2	1,800,000	1,807,168
		3,879,898
IT CONSULTING & OTHER SERVICES—1.5%		
International Business Machines Corp., 1.95%, 7/22/16*,L2	1,525,000	**1,571,180**
OTHER DIVERSIFIED FINANCIAL SERVICES—3.8%		
Bank of America Corp., 5.88%, 1/5/21L2	2,000,000	1,906,910
JPMorgan Chase & Co., 3.45%, 3/1/16L2	2,000,000	2,033,864
		3,940,774
PACKAGED FOODS & MEATS—2.1%		
Campbell Soup Co., 3.05%, 7/15/17L2	2,000,000	**2,140,518**
PHARMACEUTICALS—2.0%		
Abbott Laboratories, 5.88%, 5/15/16L2	1,725,000	**2,025,599**
TOTAL CORPORATE BONDS (Cost $31,907,857)		**31,486,273**

U.S. TREASURY OBLIGATIONS —9.3%	PRINCIPAL AMOUNT	VALUE
1.13%, 1/15/12 L2	$ 2,000,000	$ 2,001,016
1.50%, 12/31/13 L2	2,000,000	2,050,000
4.75%, 5/15/14 L2	2,052,000	2,266,820
4.25%, 11/15/14 L2	1,900,000	2,109,891
4.50%, 2/15/16 L2	940,000	1,086,948
TOTAL U.S. TREASURY OBLIGATIONS (Cost $9,327,511)		**9,514,675**

Total Investments (Cost $93,282,907)(a)	93.4%	95,082,686
Other Assets in Excess of Liabilities	6.6	6,728,586
NET ASSETS	100.0%	**$ 101,811,272**

‡ *Securities classified as Level 1 for ASC 820 disclosure purposes based on valuation inputs unless otherwise noted. See Notes 2 and 8 to the Financial Statements.*

* *Non-income producing security.*
\# *American Depository Receipts.*
(a) *At December 31, 2011, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $93,307,491, amounted to $1,775,195 which consisted of aggregate gross unrealized appreciation of $6,674,384 and aggregate gross unrealized depreciation of $4,899,189.*
L2 *Security classified as Level 2 for ASC 820 disclosure purposes based on valuation inputs.*

Industry classifications are unaudited.
See Notes to Financial Statements.

Statement of Assets and Liabilities *December 31, 2011*

ASSETS:		
Investments in securities, at value (Identified cost)* see accompanying schedule of investments	$	95,082,686
Cash and cash equivalents		6,192,483
Receivable for investment securities sold		362,391
Receivable for shares of beneficial interest sold		19,429
Dividends and interest receivable		459,979
Prepaid expenses		26,895
Total Assets		102,143,863
LIABILITIES:		
Payable for investment securities purchased		115,465
Payable for shares of beneficial interest redeemed		88,092
Accrued investment advisory fees		61,801
Accrued transfer agent fees		2,653
Accrued administrative fees		2,394
Accrued shareholder servicing fees		871
Accrued other expenses		61,315
Total Liabilities		332,591
NET ASSETS	**$**	**101,811,272**
Net Assets Consist of:		
Paid in capital		121,278,717
Undistributed net investment income		1,254,434
Accumulated net realized loss		(22,521,435)
Net unrealized appreciation on investments		1,799,556
NET ASSETS	**$**	**101,811,272**
Net Asset Value Per Share		
Class I-2		$11.31
Net Assets By Class		
Class I-2	$	101,811,272
Class S		—
Shares of Benefical Interest Outstanding— Note 6 (Par Value $.001)		
Class I-2		9,005,796
*Identified Cost	$	93,282,907

Statement of Operations

For the year ended December 31, 2011

INCOME:		
Dividends (net of foreign withholding taxes*)	$	928,975
Interest		1,410,624
Total Income		2,339,599
EXPENSES		
Advisory fees—Note 3(a)		793,523
Administrative fees—Note 3(a)		30,735
Custodian fees		27,600
Fund accounting fees		26,369
Transfer agent fees and expenses—Note 3(d)		24,776
Printing fees		33,625
Professional fees		25,828
Registration fees		50,509
Trustee fees—Note 3(e)		19,085
Miscellaneous		7,564
Total Expenses		1,039,614
Less, expense reimbursements/waivers—Note 3(a)		(41,224)
Net Expenses		998,390
NET INVESTMENT INCOME		1,341,209
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY TRANSACTIONS:		
Net realized gain on investments and purchased options		5,429,273
Net realized loss on foreign currency transactions		(19,146)
Net change in unrealized appreciation (depreciation) on investments and foreign currency		(6,385,639)
Net realized and unrealized loss on investments, options and foreign currency		(975,512)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**365,697**
*Foreign withholding taxes	$	8,175

 See Notes to Financial Statements.

		For the Year Ended December 31, 2011		For the Year Ended December 31, 2010
Net investment income	$	1,341,209	$	3,158,052
Net realized gain on investments, options and foreign currency transactions		5,410,127		1,897,601
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency		(6,385,639)		6,662,845
Net increase in net assets resulting from operations		365,697		11,718,498
Dividends and distributions to shareholders from:				
Net investment income				
Class I-2		(3,172,728)		(3,115,203)
Class S		—		(5,390)
Net realized gains				
Class I-2		—		—
Class S		—		—
Total dividends and distributions to shareholders		(3,172,728)		(3,120,593)
Increase (decrease) from shares of beneficial interest transactions:				
Class I-2		(15,185,365)		(16,551,023)
Class S		—		(276,098)
Net decrease from shares of beneficial interest transactions—Note 6		(15,185,365)		(16,827,121)
Total decrease		(17,992,396)		(8,229,216)
Net Assets:				
Beginning of period		119,803,668		128,032,884
END OF PERIOD	**$**	**101,811,272**	**$**	**119,803,668**
Undistributed net investment income	$	1,254,434	$	3,099,954

Alger Balanced Portfolio

	Class I-2				
	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009	Year ended 12/31/2008	Year ended 12/31/2007
Net asset value, beginning of period	$ 11.61	$ 10.79	$ 8.64	$ 14.61	$ 14.11
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income(i)	0.14	0.28	0.25	0.26	0.26
Net realized and unrealized gain (loss) on investments	(0.12)	0.82	2.21	(4.35)	1.41
Total from investment operations	0.02	1.10	2.46	(4.09)	1.67
Dividends from net investment income	(0.32)	(0.28)	(0.31)	(0.33)	(0.31)
Distributions from net realized gains	—	—	—	(1.55)	(0.86)
Net asset value, end of period	$ 11.31	$ 11.61	$ 10.79	$ 8.64	$ 14.61
Total return	0.03%	10.33%	29.25%	(31.76)%	12.37%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 101,811	$ 119,804	$ 127,756	$ 118,759	$ 224,090
Ratio of gross expenses to average net assets	0.93%	0.91%	0.89%	0.85%	0.84%
Ratio of expense reimbursements to average net assets	(0.04)%	(0.04)%	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.89%	0.87%	0.85%	0.81%	0.80%
Ratio of net investment income to average net assets	1.20%	2.60%	2.60%	2.19%	1.79%
Portfolio turnover rate	102.79%	69.30%	104.04%	76.32%	103.77%

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

NOTE 1 — General:

The Alger Portfolios (the "Fund") is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund operates as a series company currently issuing seven series of shares of beneficial interest: the Alger Capital Appreciation Portfolio, Alger Large Cap Growth Portfolio, Alger Mid Cap Growth Portfolio, Alger SMid Cap Growth Portfolio, Alger Small Cap Growth Portfolio, Alger Growth & Income Portfolio, and Alger Balanced Portfolio (collectively the "Portfolios"). These financial statements include only the Alger Balanced Portfolio (the "Portfolio"). The Portfolio's investment objective is current income and long-term capital appreciation which it seeks to achieve through investing in equity and fixed income securities. Shares of the Portfolio are available 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 I-2 shares.

NOTE 2 — Significant Accounting Policies:

(a) Investment Valuation: The Portfolio values its financial instruments at fair value using independent dealers or pricing services under policies approved by the Funds Board of Trustees. Investments of the Portfolio are valued on each day the New York Stock Exchange (the "NYSE") is open, as of the close of the NYSE (normally 4:00 p.m. Eastern time).

Equity securities and option contracts for which 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 ask price or, in the absence of a recent bid or ask price, the equivalent as obtained from one or more of the major market makers for the securities to be valued.

Debt securities generally trade in the over-the-counter market. Securities with remaining maturities of more than sixty days at the time of acquisition are valued on the basis of last available bid prices or current market quotations provided by dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrixes, market transactions in comparable investments, various relationships observed in the market between investments and calculated yield measures based on valuation technology commonly employed in the market for such investments. Asset-backed and mortgage-backed securities are valued by independent pricing services using models that consider estimated cash flows of each tranche of the security, establish a benchmark yield and develop an estimated tranche-specific spread to the benchmark yield based on the unique attributes of the tranche. Debt securities with a remaining maturity of less than sixty days are valued at amortized cost which approximates market value.

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

Securities in which the Portfolio invests may be traded in foreign markets that close before the close of the NYSE. Developments that occur between the close of the foreign markets and the close of the NYSE may result in adjustments to the closing prices to reflect what the investment adviser, 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.

Financial Accounting Standards Board Accounting Standards Codification 820 – Fair Value Measurements and Disclosures ("ASC 820") defines fair value as the price that the Portfolio would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. "Inputs" refer broadly to the assumptions that market participants would use in pricing the asset or liability and may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Portfolio. Unobservable inputs are inputs that reflect the Portfolio's, own assumptions based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

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

The Portfolio's valuation techniques are 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. Inputs for Level 1 include exchange listed prices and broker quotes in an active market. Inputs for Level 2 include the last trade price in the case of a halted security, a broker quote in an inactive market, an exchange-listed price which has been adjusted for fair value factors, and prices of closely related securities. Additional Level 2 inputs include an evaluated price which is based upon on a compilation of observable market information such as spreads for fixed income and preferred securities. Inputs for Level 3 include derived prices from unobservable market information which can include cash flows and other information obtained from a company's financial statements, or from market indicators such as benchmarks and indices.

(b) Cash and Cash Equivalents: Cash and cash equivalents include U.S. dollars and overnight time deposits.

(c) Security Transactions and Investment Income: Security transactions are recorded on a trade date basis. Realized gains and losses from security transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis.

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

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

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

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

The Portfolio may also purchase put and call options. 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 of loss associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying security to determine the realized gain or loss.

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

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

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules. Therefore, the source of the Portfolio's distributions may be shown in the accompanying financial statements as either from, or in excess of, net investment income 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 or loss from foreign currency transactions, and realized gains from redemptions in kind, if any. The reclassifications have no impact on the net asset values of the Portfolio and were 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 Subchapter M applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, of the Portfolio to its shareholders. Therefore, no federal income tax provision is required.

Financial Accounting Standards Board Accounting Standards Codification 740 – Income Taxes ("ASC 740") requires the Portfolio to measure and recognize in its financial statements the benefit of a tax position taken (or expected to be taken) on an income tax return if such position will more likely than not be sustained upon examination based on the technical merits of the position. No tax years are currently under investigation. The Portfolio files income tax returns in the U.S. Federal jurisdiction, as well as the New York State and New York City jurisdictions. The statute of limitations on the Portfolio's tax returns remains open for the tax years 2007-2011. Management does not believe there are any uncertain tax positions that require recognition of a tax liability.

(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.

(i) Estimates: These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require using estimates and assumptions that affect the reported amounts therein. 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" or "Manager"), are payable monthly and computed based on the average daily net assets of the Portfolio at the following annual rate:

	Advisory Fee	Administration Fee
Alger Balanced Portfolio	.710%	.0275%

As part of a settlement with the New York State Attorney General dated October 11, 2006, Alger Management agreed to reduce its advisory fee listed above to 0.67% for the Portfolio, for the period from December 1, 2006 through November 30, 2011. For the year ended December 31, 2011, Alger Management reimbursed the Portfolio $41,224.

(b) Brokerage Commissions: During the year ended December 31, 2011, the Portfolio paid Alger Inc. $45,209, in connection with securities transactions.

(c) Shareholder Administrative Fees: The Fund has entered into a shareholder administrative services agreement with Alger Management to compensate Alger Management for its liaison and administrative oversight of Boston Financial Data Services, Inc., the transfer agent, and other related services. The Portfolio compensates Alger Management at the annual rate of 0.01% of the average daily net assets for these services. For the year ended December 31, 2011, the Portfolio incurred fees of $11,176, for these services, which are included in transfer agent fees and expenses in the Statements of Operations.

(d) Trustee Fees: The Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $750 for each meeting attended, to a maximum of $3,000 per annum, plus travel expenses incurred for attending the meeting. The chairman of the Board of Trustees receives an additional annual fee of $15,000 which is paid, pro rata, by all funds managed by Alger Management. Additionally, each member of the audit committee receives an additional $75 for each audit committee meeting attended, to a maximum of $300 per annum.

(e) Interfund Loans: The Portfolio, along with other funds advised by Alger Management, may borrow money from and lend money to each other for temporary or emergency purposes. To the extent permitted under its investment restrictions, the Portfolio may lend uninvested cash in an amount up to 15% of its net assets to other Portfolios. If the Portfolio has borrowed from other Portfolios and has aggregate borrowings from all sources that exceed 10% of the Portfolio's total assets, the Portfolio will secure all of its loans from other Portfolios. The interest rate charged on interfund loans is equal to the average of the overnight time deposit rate and bank loan rate available to the Portfolios.

During the year ended December 31, 2011, the Portfolio had no interfund loans.

(f) Other Transactions With Affiliates: Certain trustees and officers of the Fund are directors and officers of Alger Management and the Distributor.

NOTE 4 — Securities Transactions:

Purchases and sales of securities, other than U.S. Government and short-term securities, for the year ended December 31, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$96,669,518	$111,059,107

NOTE 5 — Borrowing:

The Portfolio may borrow from its custodian on an uncommitted basis. The Portfolio pays the custodian a market rate of interest, generally based upon the London Inter-Bank Offered Rate. The Portfolio may also borrow from other portfolios advised by Alger Management, as discussed in Note 3(e). For the year ended December 31, 2011, the Portfolio had no borrowings.

NOTE 6 — Share Capital:

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value for each share class. During the year ended December 31, 2011 and the year ended December 31, 2010, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2011		FOR THE YEAR ENDED DECEMBER 31, 2010	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	525,369	$ 6,025,454	594,492	$ 6,504,085
Dividends reinvested	270,941	3,172,728	285,275	3,115,203
Shares redeemed	(2,113,803)	(24,383,547)	(2,397,137)	(26,170,311)
Net decrease	**(1,317,493)**	**$ (15,185,365)**	**(1,517,370)**	**$ (16,551,023)**
Class S:				
Shares sold	—	$ —	56	$ 698
Dividends reinvested	—	—	454	5,390
Shares redeemed	—	—	(24,051)	(282,186)
Net decrease	**—**	**$ —**	**(23,541)**	**$ (276,098)**

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2011 and the year ended December 31, 2010 was as follows:

	YEAR ENDED DECEMBER 31, 2011	YEAR ENDED DECEMBER 31, 2010
Alger Balanced Portfolio		
Distributions paid from:		
Ordinary Income	$ 3,172,728	$ 3,120,593
Long-term capital gain	—	—
Total distributions paid	$ 3,172,728	$ 3,120,593

As of December 31, 2011, the components of accumulated gains and losses on a tax basis were as follows:

Alger Balanced Portfolio

Undistributed ordinary income	$	1,249,807
Undistributed long-term gains		—
Net accumulated earnings		1,249,807
Capital loss carryforwards		(22,492,224)
Net unrealized appreciation		1,774,972
Total accumulated losses	$	(19,467,445)

At December 31, 2011, 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 Dates		Alger Balanced Portfolio
2017	$	22,492,224
Total		22,492,224

Net capital losses incurred after October 31 and within the taxable year are deemed to arise on the first business day of the portfolio's next taxable year.

Under the recently enacted Regulated Investment Company Modernization Act of 2010, capital losses incurred by the Portfolio on or after January 1, 2011 will not be subject to expiration. In addition, losses incurred on or after January 1, 2011 must be utilized prior to the utilization of capital loss carryforwards above.

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, the tax treatment of partnership investments, the realization of unrealized appreciation of Passive Foreign Investments Companies, and return of capital from Real Estate Investment Trust investments.

Permanent differences, primarily from net operating losses and real estate investment trusts and partnership investments sold by the Portfolio, resulted in the following reclassifications among the Portfolio's components of net assets at December 31, 2011:

Alger Balanced Portfolio

Undistributed net investment income	$	(14,001)
Accumulated net realized loss	$	19,729
Paid in capital	$	(5,728)

NOTE 8 — Fair Value Measurements:

The major categories of securities and their respective fair value inputs are detailed in each Portfolio's Schedule of Investments. The following is a summary of the inputs used as of December 31, 2011 in valuing the Portfolio's investments carried at fair value.

Alger Balanced Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
COMMON STOCKS				
Consumer Discretionary	$ 6,792,318	$ 6,792,318	—	—
Consumer Staples	5,903,686	5,903,686	—	—
Energy	6,319,936	6,319,936	—	—
Financials	2,784,578	2,390,095	394,483	—
Health Care	5,493,842	5,493,842	—	—
Industrials	6,800,272	6,800,272	—	—
Information Technology	16,049,421	16,049,421	—	—
Materials	3,583,626	3,583,626	—	—
Telecommunication Services	354,059	354,059	—	—
TOTAL COMMON STOCKS	**$ 54,081,738**	**$ 53,687,255**	**$ 394,483**	**—**
CORPORATE BONDS				
Consumer Staples	$ 4,280,290	—	$ 4,280,290	—
Energy	2,054,702	—	2,054,702	—
Financials	6,032,912	—	6,032,912	—
Health Care	4,408,831	—	4,408,831	—
Industrials	3,983,352	—	3,983,352	—
Information Technology	6,846,288	—	6,846,288	—
Telecommunication Services	3,879,898	—	3,879,898	—
TOTAL CORPORATE BONDS	**$ 31,486,273**	**—**	**$ 31,486,273**	**—**
U.S. GOVERNMENT & AGENCY OBLIGATIONS (EXCLUDING MORTGAGE-BACKED)				
U.S. Treasury Notes	$ 9,514,675	—	$ 9,514,675	—
TOTAL INVESTMENTS IN SECURITIES	**$ 95,082,686**	**$ 53,687,255**	**$ 41,395,431**	**—**

For the year ended December 31, 2011, there were no significant transfers between Level 1 and Level 2.

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging ("ASC 815") 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.

Forward currency contracts—In connection with portfolio purchases and sales of securities denominated in foreign currencies, the Portfolio may enter into forward currency contracts. Additionally, the Portfolio may enter into such contracts to economically hedge certain other foreign currency denominated investments. These contracts are valued at the current cost of covering or offsetting such contracts, and the related realized and unrealized foreign exchange gains and losses are included in the statement of operations. In the event that counterparties fail to settle these currency contracts or the related foreign security trades, the Portfolio could be exposed to foreign currency fluctuations.

Options—The Portfolio seeks to capture the majority of the returns associated with equity market investments. To meet this investment goal, the Portfolio invests in a broadly diversified portfolio of common stocks, while also buying and selling call and put options on equities and equity indices. The Portfolio purchases call options to increase its exposure to stock market risk and also provide diversification of risk. The Portfolio purchases put options in order to protect from significant market declines that may occur over a short period of time. The Portfolio will write covered call and cash secured put options to generate cash flows while reducing the volatility of the portfolio. The cash flows may be an important source of the Portfolio's return, although written call options may reduce the Portfolio's ability to profit from increases in the value of the underlying security or equity portfolio. The value of a call option generally increases as the price of the underlying stock increases and decreases as the stock decreases in price. Conversely, the value of a put option generally increases as the price of the underlying stock decreases and decreases as the stock increases in price. The combination of the diversified stock portfolio and the purchase and sale of options is intended to provide the Portfolio with the majority of the returns associated with equity market investments but with reduced volatility and returns that are augmented with the cash flows from the sale of options. During the year ended December 31, 2011, written equity and index put options were used in accordance with this objective.

During the year ended December 31, 2011, the Portfolio had no derivative instruments.

NOTE 10 — Litigation:

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 the Manager and the Distributor had violated the West Virginia Uniform Securities Act (the "WVUSA"), and ordered the Manager and the Distributor 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 the Manager were served with similar orders. The Manager and the Distributor intend to request a hearing for the purpose of seeking to vacate or modify the order.

NOTE 11 — Recent Accounting Pronouncements:

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards). The ASU converges fair value measurement and disclosure guidance in U.S. GAAP with the guidance in the International Accounting Standards Board's concurrently issued IFRS 13, Fair Value Measurement. These amendments do not modify the requirements for when fair value measurements apply; rather, they generally represent clarifications on how to measure and disclose fair value under ASC 820, Fair Value Measurement. The application of ASU 2011-04 is required for fiscal years and interim periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU 2011-04.

NOTE 12 — Subsequent Event:

Management of the Portfolio has evaluated events that have occurred subsequent to December 31, 2011. No such events have been identified which require recognition and disclosure.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees of The Alger Portfolios:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger Balanced Portfolio, one of the portfolios constituting The Alger Portfolios (the "Fund") as of December 31, 2011, 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 three 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. The Fund's financial highlights for the respective periods ended December 31, 2008 were audited by other auditors, whose report dated February 10, 2009, expressed an unqualified opinion on such financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of their 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2011, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. 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 Balanced Portfolio of The Alger Portfolios as of December 31, 2011, 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 three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
New York, New York
February 16, 2012

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, 2011 and ending December 31, 2011.

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, 2011	Ending Account Value December 31, 2011	Expenses Paid During the Six Months Ended December 31, 2011(a)	Ratio of Expenses to Average Net Assets For the Six Months Ended December 31, 2011(b)
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 971.62	$ 4.44	0.89%
	Hypothetical(c)	1,000.00	1,020.70	4.55	0.89

(a) *Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*
(b) *Annualized.*
(c) *5% annual return before expenses.*

Trustees and Officers of the Fund

Information about the trustees and officers of the Fund is set forth below. In the table the term "Alger Fund Complex" refers to the Fund, The Alger Funds, The Alger Institutional Funds, Alger China-U.S. Growth Fund and The Alger Funds II, 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 360 Park Avenue South, New York, NY 10010.

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Funds in the Alger Fund Complex which are Overseen by Trustee
INTERESTED TRUSTEE			
Hilary M. Alger (50)	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	25
NON-INTERESTED TRUSTEE			
Charles F. Baird, Jr. (58)	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.	2000	25
Roger P. Cheever (66)	Associate Vice President for Principal Gifts, and Senior Associate Dean for Development in the Faculty of Arts and Sciences at Harvard University; Formerly Deputy Director of the Harvard College Fund.	2000	25
Lester L. Colbert Jr. (77)	Private investor since 1988; Formerly Chairman of the Board, President and Chief Executive Officer of Xidex Corporation (manufacturer of computer information media).	2000	25
Stephen E. O'Neil (79)	Attorney. Private Investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1986	25
David Rosenberg (49)	Associate Professor of Law since January 2006 (Assistant Professor 2000-2005), Zicklin School of Business, Baruch College, City University of New York.	2007	25
Nathan E. Saint-Amand M.D. (74)	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.	1986	25

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Funds in the Alger Fund Complex which are Overseen by Trustee
OFFICERS			
Dan C. Chung (49) President	Chief Investment Officer and Director since 2001, and Chief Executive Officer since 2006, of Alger Management; President and Chief Executive Officer since 2003 of Alger Associates, Inc. ("Associates"); Chairman of the Board of Directors since 2006 of Alger Inc.; President since 2003 and Director since 2003 of Analysts Resources, Inc. ("Resources"); Formerly Trustee of the Fund from 2001 to 2007.	2003	N/A
Hal Liebes (47) Secretary	Executive Vice President, Chief Legal Officer, Chief Operating Officer and Secretary of Alger Management, Associates and Alger Inc.; Director since 2006 of Alger Management, Alger Inc. and Resources.	2005	N/A
Lisa A. Moss (46) Assistant Secretary	Assistant General Counsel of Alger Management since 2006, currently serving as Senior Vice President.	2006	N/A
Joseph P. Graham (27) Assistant Secretary	Employed by Alger Management since 2011. Formerly, full-time student.	2011	N/A
Michael D. Martins (46) Treasurer	Senior Vice President of Alger Management.	2005	N/A
Anthony S. Caputo (56) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President.	2007	N/A
Sergio M. Pavone (50) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President.	2007	N/A
Barry J. Mullen (58) Chief Compliance Officer	Senior Vice President and Director of Compliance of Alger Management since 2006.	2006	N/A

Ms. Alger is an "interested person" (as defined in the Investment Company Act) of the Fund because of her affiliations with Alger Management. No Trustee is a director of any public company except as indicated under "Principal Occupations".

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

Investment Management Agreement Renewal

At an in-person meeting held on September 22, 2011, the Trustees, including the Independent Trustees, unanimously approved renewal of the Investment Advisory Agreement (the "Agreement") between the Fund and Fred Alger Management, Inc. ("Alger Management"). The Independent Trustees were assisted in their review by independent legal counsel and met with such 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 each 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 FUSE Research Network LLC ("FUSE"), an independent consulting firm selected by the Fund's Chief Compliance Officer, having no other relationship with Alger Management, 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 FUSE personnel provided a presentation to the Trustees based on the FUSE 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 established expertise in managing portfolios of "growth" stocks and that, according to an analysis provided by FUSE, the characteristics of each equity Portfolio had been consistent with those 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 enhanced 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 FUSE and upon reports provided to the Trustees by Alger Management throughout the preceding year, the Trustees reviewed each Portfolio's returns for the year-to-date (at June 30, 2011), second-quarter, and 1-, 3-, 5-, and 10-year periods to the extent available (and its year-by-year returns), together with supplemental data through August 31, 2011, and compared them with benchmark and peer-group data for the same periods. They noted that the Growth & Income Portfolio had consistently performed well, surpassing the median for its FUSE peer group for the year-to-date, second-quarter, and 1-, 3- and 5-year periods and beating its benchmark for all of those periods except the second-quarter and 3-year periods. Performance of the other Portfolios had been mixed, with the Large Cap Portfolio surpassing its peer median for the second quarter of 2011 and matching it for the 3- and 5-year periods and the Capital Appreciation Portfolio matching or surpassing its peer median for the second-quarter, year-to-date and 3- and 5-year periods through June 30, 2011; also, the Small Cap and Capital Appreciation Portfolios had generally matched or surpassed their benchmarks for the year-to-date and 3- and 5-year periods. Otherwise, performance had fallen short of both peer median and benchmark.

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, 2011. 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, FUSE had provided the Trustees with comparative information with respect to fees paid, and expense ratios incurred, by similar funds. That information indicated that the fees of the Large Cap, SMid Cap, Small Cap and Growth & Income Portfolios were below the median for the applicable FUSE reference groups, while those of the Mid Cap, Capital Appreciation and Balanced Portfolios exceeded the applicable median, as did all of the expense ratios except those of the SMid Cap Portfolio and the Class I-2 Shares of the Small Cap Portfolio. 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. The Trustees also considered fees paid to Alger Management by other types of clients, specifically mutual funds for which Alger Management was sub-adviser and separately managed accounts. The Trustees determined that in both cases the fees were of doubtful relevance for purposes of comparison with those of the Portfolios because of the significant differences in services provided by Alger Management to those types of clients as opposed to the Portfolios, but that to the extent that meaningful comparison was practicable, the differences in services adequately explained the differences in the fees. After discussing with representatives of the Adviser and FUSE 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 soft-dollar commissions by Portfolio for the twelve months through June 30, 2011, 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 determined that the Portfolios' overall performance was acceptable.

- 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.

Privacy Policy

FACTS	WHAT DOES ALGER DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal information, which, under Federal law, means personally identifiable information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: • Social Security number • account balances, transaction history and credit information
How?	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Alger chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Alger share?	Can you limit this sharing?
For our everyday business purposes — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	**Yes**	**No**
For our marketing purposes — with service providers we use to offer our products and services to you	**Yes**	**No**
For joint marketing with other financial companies	**No**	**We don't share**
For our affiliates' everyday business purposes—information about your transactions and experiences	**Yes**	**No**
For our affiliates' everyday business purposes—information about your creditworthiness	**No**	**We don't share**
For nonaffiliates to market to you — for all credit card accounts	**No**	**We don't share**
For nonaffiliates to market to you — for accounts and services endorsed by another organization	**No**	**We don't share**
For nonaffiliates to market to you — for accounts other than credit card accounts and Sponsored Accounts, such as insurance, investments, deposit and lending	**No**	**We don't share**

What we do	
How does Alger protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. For more information visit alger.com.
How does Alger collect my personal information?	We collect your personal information, for example, when you: • open an account or perform transactions • seek advice about your investments We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.
Why can't I limit all sharing?	Federal law gives you the right to limit some but not all sharing related to: • sharing for affiliates' everyday business purposes — information about your creditworthiness • affiliates from using your information to market to you • sharing for nonaffiliates to market to you State laws and individual companies may give you additional rights to limit sharing.

Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. • Our affiliates include Fred Alger Management, Inc. and Fred Alger & Company, Incorporated as well as the following funds: The Alger Funds, The Alger Funds II, The Alger Institutional Funds, The Alger Portfolios, and Alger China-U.S. Growth Fund.
Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

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.

THE ALGER PORTFOLIOS

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Investment Advisor

Fred Alger Management, Inc.
360 Park Avenue South
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Distributor

Fred Alger & Company, Incorporated
360 Park Avenue South
New York, NY 10010

Transfer Agent and Dividend Disbursing Agent

Boston Financial Data Services, Inc.
P.O. Box 8480
Boston, MA 02266

This report is submitted for the general information of the shareholders of The Alger Portfolios. It is not authorized for distribution to prospective investors unless accompanied by an effective Prospectus for the Trust, which contains information concerning the Trust's investment policies, fees and expenses as well as other pertinent information.

ALGER

Inspired by Change, Driven by Growth.

ALGER

Inspired by Change, Driven by Growth.

A pooled funding vehicle for:

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

The Alger Portfolios

Alger Capital Appreciation Portfolio

ANNUAL REPORT

December 31, 2011

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Dear Shareholders,

January 25, 2012

Uncertainty and Change Dominate Markets

Much like the year that preceded it, 2011 was characterized by equity markets being seized more by a crisis of waning confidence and investors' deteriorating outlook than by stock fundamentals. Nevertheless, the S&P 500 Index finished 2011 with a 2.11% gain. Rising correlations among stocks and equity volatility resembling levels experienced in 2008 and early 2009 created a difficult environment for all fundamental investors, including Alger. We maintain that the best way to manage risk is to have in-depth knowledge of portfolio holdings. During the year, our highly knowledgeable and experienced analysts continued to focus on conducting rigorous research while seeking to identify fundamental changes within industries and companies that can drive growth in revenues and earnings. Stocks are ultimately valued on their present and expected future growth, earnings, and ability to generate free cash flow. In the long run, as Alger's historical investment record reflects, the market correctly values stocks on such fundamentals. However, there are periods when other factors dominate the overall market's direction and the valuation of individual stocks. Such factors, commonly gathered under the collective label of "macro" or "investor sentiment," can trump individual stock analysis for significant periods. We have been in such a period since 2008, with correlations among U.S. equities 75% higher than the average of the previous 80 years, according to Empirical Research Partners.

The idea that equity markets can be dominated by investor sentiment centered on macro factors is not irrational. Rather, it is quite natural when the pace of U.S. and global economic growth is uncertain. Investors' focus on macro issues is also to be expected because the nature of economic growth in the U.S. and other countries is shifting to new paradigms that are based on, as yet, unknown terms. Whether the basic principles of the U.S. economy, for example, its tax structure, subsidies (explicit and implicit), regulatory oversight, and the very nature of competition within industries, will remain on terms similar to those of the last 20 years is a legitimate question. This uncertainty and change stem from many of the ongoing global forces of change that were perhaps destined to cross paths, if not collide.

When uncertainty appears high, many investors find it difficult to remember and act based on the core belief that stock valuations are ultimately driven by differences among corporations' fundamentals. Today, excellent companies and poor ones trade at valuations more similar than different, and rise or fall, more often than not, together based on events unrelated to corporations' or industries' fundamentals. Many investors forget that companies and the people that work within them change constantly and that great companies adapt and, often, even excel during times of change and uncertainty. In 2011, "events" such as statements by European politicians as to their agreement or disagreement on solutions to the euro-zone crisis, the details of which are lacking, moved markets more than underlying company fundamentals. This development has occurred despite year-over-year quarterly earnings for the S&P 500 increasing every quarter since the fourth quarter of 2008.

It is quite clear that the rational behavior of crowds often, if not always, results in a great number of individual errors, some of gigantic proportions. This occurred in 2011, when investors fled U.S. stocks and equities from other countries, leaving us with astounding anomalies, such as investors' continuing preference for 10-year U.S. Treasuries yielding 1.94% at the end of 2011 compared to the 2.11% yield of the S&P 500. This is a rare phenomenon that shows, at present, no sign of regressing. Similarly, continued improvement in U.S. corporate fundamentals – S&P 500 reported earnings in 2011 were $89.87, up over 16% from 2010 and operating earnings were $96.90 – did not translate into significant price gains for the index for the year. Historical averages would suggest the S&P 500 would be fairly valued at approximately 1500, instead of at 1257 as of the end of 2011. At 1500, the S&P would have a trailing price-to-earnings ratio of 16.9, compared to the actual P/E at year-end of 13.99, the second lowest P/E ratio in the last 20 years.

Have Investors Lost Sight of Reality?
At the end of 2011, 10-year Treasury bonds yielded only 1.94%, causing us to ask, have investors lost sight of reality? Inflation, both the government reported kind and the real one we live with is distinctly higher than 2%, thus Treasury bonds are very likely to produce negative real returns. Many high-quality dividend paying companies have dividend yields exceeding 2% and offer 10-year return potential that, in our opinion, is likely to be vastly superior to Treasury bonds. Companies are dynamic entities that can, in varying degrees, adjust to higher costs and still grow profit margins or earnings, despite inflation. For long-term investors, we believe the odds of generating positive real returns are distinctly in favor of equity investors.

Inflation should be viewed from somewhat different perspectives by investors, consumers, and companies. First, while inflation in the future will reduce the value of the dollar on a real basis, we don't believe it will reduce Americans' living standard. Certain costs may rise, but there is also frequently a rise in the quality of goods or services. Government statistics on inflation make adjustments for changes in quality that can be distorting in either direction. For example, in terms of housing costs, adjustments are made for both the size and features of the "average" American home which tend, in our view, to under-report the rate of inflation in housing over long periods of time. The American home in 2012 is larger, better equipped, and thus "better" than that same home in 1950.

In many cases, the costs of goods and services that are part of the quality of modern lifestyles are, in a real sense, falling, not rising. Electronics products are an example. Though consumers who must have "the latest and greatest" devices and capabilities may experience "inflation" (i.e., the cost to continually be the first to own the "latest and greatest" in computing does increase annually), technology prices have decreased dramatically while the functionality of computing and communications has risen because of new features, faster speeds, and greater storage capacity. The same is true of air travel and tourism, whose affordability has increased dramatically since the dawn of the Jet Age to today's online travel market of Priceline.com Inc. Of course, for many other goods and services, inflation has been well above the 2 or 3% reported in recent years. One example is the television subscription fee for ESPN, which has climbed 42% since 2006, and is expected to rise even further and at a faster rate following a new NFL contract which costs 60% more.

In sum, it's very difficult to capture the real effect of inflation, or its absence, across the modern economy. However, economic theory suggests that the output in quantity and variety produced by our system, in economic terms, is a strong indication of the true answer. American capitalism, flawed and imperfect as any human system will be, has produced these common goods and services at lower, not higher, real costs to the U.S. consumer. The strongest evidence of the success of the American economic system surrounds us – observe the array of goods and services available to Americans at an extraordinary variety of price points, quality, features, and locations. It is basic economics that such success benefits all in the system – not only the most successful, and not to the exclusion of those less successful.

These observations may seem obvious and raise the question why we have bothered to spill so much ink on them. The answer lies in two observations. First, is the pessimism of most investors about the future of the U.S. economy. The other, closely related, is the frequency of media headlines depicting the decline of America. For example, the Washington Post recently published an article called "A Bleak Look at America's Future" and Foreign Affairs magazine recently featured a cover article titled "Is America Over?" This echo chamber of media bites does have a dampening effect on consumer behavior and on businesses leaders who are deciding on whether to invest for growth or pause and save. Perhaps, this explains the reaction of investors in 2011 that withdrew from U.S. and global equities and continued their march into "safe havens" such as U.S. Treasuries and intermediate bond funds. This dampening effect has certainly impacted Europe, as the policies of austerity, combined with the psychological trauma of uncertainty regarding taxes, delayed retirements, new regulations, and other matters, cause companies and consumers to be, regardless of their own individual well being, more cautious and reluctant to engage in new ventures than they otherwise would have been.

Some of this austerity is necessary because the debt-driven consumption and the consequent over-investment of the past was not sustainable long term. In the future, it cannot be the solution to the problems of the U.S. or Europe. American households have been making progress in this area. According to the Federal Reserve, the overall debt-to-income ratio has improved substantially since the third quarter of 2007 and Americans' debt-to-assets ratio has improved since the first quarter of 2009. Corporations in the U.S., meanwhile, have done a remarkable job in managing their income and balance sheets. As a whole, corporate America is very healthy and competitive relative to the rest of the world, and we should all be glad for that strength and resilience in the face of tremendous global change.

The opportunity to invest in the dynamic change occurring in the U.S. is as exciting today as it has ever been. Bull markets do not start with investors cheering equities, but instead typically start at the peak of capitulation. We believe the U.S. is in the early stages of a new bull market, and encourage our readers and clients to think, as we're outlining here, about the future optimistically, despite headlines and the current herd mentality.

An Interesting 2012

There are three likely market scenarios for 2012. Two of them could result in dramatically higher U.S. equity valuations by the end of the year. The third is, simply put, more of the same, with the economy, the nation, and the equity markets treading water and going nowhere. The two that offer upside potential, which combined we assign an 80% probability of occurring, will take dramatically different paths but have the same results.

In the first scenario, we see either the markets rioting through significant downward volatility, such as a 15 to 20% decline. It would be European led, but U.S. and emerging markets would be impacted, thus forcing European political bodies to act – and act decisively and comprehensively—to address the structural problems in Europe. We at Alger feel this scenario is most likely, and in effect would play out like 2009 – dramatic downside in the markets, with declines being the most significant in Europe and emerging markets, in the first half of 2012, followed by a more dramatic recovery in the second half of the year, especially in U.S. equities. The S&P 500 would end the year at 1500 or higher, eclipsing the post-financial crises high of 1350 reached in the summer of 2011.

The second scenario is cheerier. It involves European leaders surprising the markets early in 2012 by acting comprehensively to "ring fence" Italy and Spain without further true rioting by the markets. For the latter scenario to play out, European leaders must act early in 2012, or we think it is likely that markets lose patience and riot, resulting in our first scenario. We are encouraged to note that bond markets responded very favorably to some recent steps in Europe with near shocking drops in yields. For example, yields of Spanish 10-year Treasury bonds dropped from approximately 6.5% in November to 5.03% in December. But we're suspicious of such volatility as it's just as susceptible to swing the other way until a comprehensive solution is enacted.

The third, and our lowest probability scenario, but one sparking debate at Alger, involves markets in 2012 continuing to be volatile and lacking direction. Thus, we would end 2012 pretty much where we are today. The main argument for this view is that while either scenario one or two above must play out in 2012, the U.S. markets, rather than responding positively to the resolution of the euro-zone crisis, could turn their attention to the political gridlock in the U.S., including issues such as deficit spending, and find it a reason to do nothing. It is reasonable to believe that, on a policy basis, little is likely to be clarified until the November presidential election. As reported by the New York Times, President Obama is busy campaigning, already having logged more campaign travel time at this point than any of his recent predecessors and will clearly have more campaigning in the near future. Finally, the Congressional Super Committee on the budget turned out to be anything but super. Surprisingly, many seem happy with the automatic cuts across the board, rather than with actual policy-making between our political parties.

We give our third scenario a low probability because it suggests that the current positive progress in the fundamentals of U.S. equities, despite economic weakness and uncertainty, will dramatically end even if the euro-zone crisis macro factor is lifted. It would mean investors don't acknowledge or reward the very sound state of U.S. corporate fundamentals.

We think a European recession in the form of modest to flat earnings growth in 2012 is likely priced into U.S. equities. A large scale U.S.-profit recession is, in our view, highly unlikely, even assuming a significant European recession and the collateral effect of slowing emerging markets economic growth. There are many convincing reasons for this. First, though the U.S. housing and automobile markets remain at low levels historically, the American auto industry is recovering while real estate appears to have firmly bottomed. Improvements within those sectors are likely in both 2012 and 2013, and will support stronger U.S. economic growth. Second, emerging markets have been loosening their monetary policies, which will support export-related growth in the U.S., and more importantly, investor confidence in the longer term growth rates for U.S. companies that are succeeding overseas. That confidence can eventually translate into higher P/E multiples, even if near-term growth rates are dampened by a euro-zone recession. Finally, conditions in the U.S. economy around labor, real estate, financing, and other inputs to corporate fundamentals suggest that the current high level of both profit margins and free cash flow with U.S. companies is not a fluke, but instead structural and likely to be maintained.

Rules, Regulations, and Restrictions

Our greatest long-term risk in the U.S. is economic policy, which the electorate will sort out in the next election. Lawmakers need to address the rapidly increasing regulatory burden and policy misdirection in the U.S. that shows no sign of abating. Americans are reminded of this burden every year, with the complexity of our tax code, but also in respect to the licenses and approvals required to start a business or enter a profession. This country's prosperity is due in large part to thousands of small businesses that are challenged by heavy regulations and will likely be challenged by proposed regulations. For example, a debate on imposing a sales tax on Internet sales is moving forward without regard to its harm to smaller retailers. While the largest Internet-based operators, such as Amazon.com, Inc. and Ralph Lauren Corp., can bear the burden of collecting state sales taxes across 50 states, the tens of thousands of smaller and not-so-small Internet-based retailers likely cannot. A New York Times article recently noted that the cost of collecting sales taxes and the implementation and monitoring of the systems to collect, remit, and account for such sales taxes might exceed 13% of sales for smaller businesses. For many businesses, that is likely to represent the bulk, if not all, of their profits. Large businesses may criticize overregulation, but to a great extent, they benefit from it as it places a much greater burden on their fiercest competitors, the successful small- and mid-size companies that are innovators.

Why has regulation disguised as "policy" grown in the U.S., regardless of which political party is in power? Because the clear winners of an increased regulatory and "policy-making" environment are lawyers. Yet, where are the media articles examining whether more lawyers and legal services are productive uses of human and financial capital? It may be no surprise that lawyers comprised 8.4% of the people in the top 1% in income in 2005 and, almost assuredly, have since risen as a percentage of that group. Since 1960, the number of lawyers per capita in the United States has grown 2 ½ times, from less than 14 per 10,000 people in 1960 to more than 38 per 10,000 in 2010. The U.S. has the highest ratio of lawyers in the world, a staggering four times the world average, according to recent research (Magee, University of Texas, "The Optimum Number of Lawyers"). While our Congress and President have accomplished little in addressing America's economic and fiscal future in the last several years (and longer, as the problem is multi-generational politically), much of the lack of progress creates a boom for lawyers who write, fight, and encourage legislation, whether in the courts, Congress, or the halls of bureaucracy centered in Washington, but with branches in all 50 states.

And then, of course, there is the private legal system and its version of a "full employment" policy for lawyers, which is the frivolous lawsuit. Regardless of how frivolous or misconceived a case may be, targets of lawsuits must pay for their defense costs and, even if they win, the costs for their defense aren't shifted to plaintiffs. Regardless of the outcome, lawyers on both sides win as they are compensated handsomely. It's different in England, the country which supplied the foundation for our legal system. Plaintiffs pay for the defense when they lose, something the U.S. should consider if we want to move away from our more litigious culture. Unfortunately, with the high number of lawyers employed in government, legal reform will not be in the best interest of the very individuals who govern and their staff, a high number of whom rely on the revolving door between government employment and private legal practice. The burden of our legal system is a high price to pay for the "right" to sue, especially when considering the nature of many lawsuits. For example, in November, parents of students on the Atrisco Heritage Academy high school football team filed a legal complaint seeking to have the athletes enter the New Mexico state finals. The team didn't make the cut in November because it lost its last game of its season. The litigation claimed that a referee incorrectly allowed the game clock to run out, which prevented the team from kicking a potentially game-winning field goal. Judge Shannon Bacon in the Second Judicial District of New Mexico eventually dismissed the litigation, explaining that the court does not serve as a "super referee" for sporting events. Is this an efficient use of resources?

How Much Should the Top 0.1% Contribute?

When evaluating taxation, it's clear that the nation risks policy missteps. The rising rancor of debate about inequality in America is an example. We're not taking sides, but we note that the astonishing lack of factual discussion (versus the current biased argument) is confirmation of the polarization of politics. In discussions about the top 1%, there are, we think, some serious oversights, or at least glossing over of reality. The 1.35 million taxpayers in this category include many successful business owners and hard working Americans who have an incentive to contribute to the success of our economy, to create jobs, and to realize the American Dream.

Regarding the top 0.1%, the average annual income is over $30 million, much of which is derived from equity and bond investing and is taxed at lower rates. We do agree with Warren Buffett and others that the truly wealthy should pay a higher tax rate than they currently do. Mr. Buffett makes great press discussing his low tax rate, but how many ordinary Americans are in a similar situation? His salary as CEO and Chairman of Berkshire Hathaway is $100,000, yet with his investments, his adjusted gross income for 2010 reached $62,855,038! When he needs money, he can sell stock from his personal investments or take income from the proceeds of a prior stock sale. Those options are simply not available to nearly all Americans. We also believe loopholes such as the treatment of carried interest for hedge funds and private equity funds should be closed as they are egregious handouts unnecessary to incentivize productive behavior. We must be careful, however, in the treatment of capital gains. America needs to encourage productive investment, of all kinds, here at home. Those willing to risk hard-earned, once taxed, savings or capital to invest should be treated favorably until they reach the top 0.1%. Capital, unlike labor, is a globally competitive arena for U.S. dollars, and there are many places in the world that have either no capital gains tax or capital gains taxes that are lower than the U.S. We must also be exceedingly careful about taxes on corporate profits of even very successful but ultimately not giant companies. They are the job creators, the innovators, and the competition that keeps the markets vital and the "too big to fail" at least somewhat responsive to growth opportunities in the U.S. Here too, the current tax code gives the largest companies an advantage, as in the case of General Electric Company which paid no corporate tax in 2010, while smaller companies routinely pay in excess of 40% of their profits in federal and state taxes, a rate that may be too high for businesses to be willing to invest and grow.

We should also note that in the top 0.1%, we have major forces we cannot control: globalization and Internet technology. The accelerated increase in the wealth of participants in these areas to some extent arises from using the Internet to leverage talents, companies, brands, and thus revenues in a global marketplace, at both speed and lower costs that were previously unimaginable. Examples are easy to see in our cultural icons – whether they are Oprah Winfrey or Kobe Bryant – who are, today, marketable across the globe, thanks in part to our country's success in attracting billions of people across the world to, in effect, the U.S. lifestyle. But this effect is not limited to the cultural elite: it is also true for many businesses and the owners or managers that have taken advantage of globalization and the Internet to lead their companies into worldwide markets with previously unimaginable success. In the case of Steve Jobs, for example, we should be applauding his success, not decrying the result the Internet has had on his wealth, because if American businesses and entrepreneurs did not succeed in the global marketplace, the vacuum would be filled by others. It's not a matter of preventing the advance of information technology and the success of entrepreneurs. Rather, it's a matter of whether our country can continue producing the businesses and people to lead in coming years in the battleground that is set.

Many of our problems today stem from the use of government subsidies specific to certain projects or industries that have won political favor. Government should not be the allocator of capital as this can lead to misdirection and, sometimes, misuse, of capital as in the case of the solar subsidies wasted on Solyndra, a company that specialized in solar energy technology for rooftops. Alternative energy, in many forms, should be incentivized from a perspective of investing in research and development, stimulating jobs, and reducing America's reliance on imported fuel. But the correct way to encourage the adoption of solar energy is to incentivize Americans to purchase alternative energy sources and let the consumer choose the best products. In other words, let the market create competition. With solar power, for example, the types of distribution systems, such as rooftop solar panels or solar energy generated and distributed by utility companies, should be encouraged and not be determined by government decisions, such as the case of Solyndra.

Going Forward

It's clear to us at Alger that U.S. companies are doing an admirable job in difficult times. Uncertainty is not an acceptable management strategy, so businesses are continuing to move forward and seek opportunities to grow, even as Washington dithers. Despite our many concerns about the state of U.S. policy-making, we remain confident in the fundamental strength of our economic system and the vitality and creativity of corporate America – in its people and in its structure – to continue to define excellence in the global marketplace. We note that even on some of its broadest measures, the U.S. economy continues to show its strength. Thus, even in the hard pressed manufacturing sector there are signs of improvement. For example, Japanese auto company Honda Motor Co. plans to ramp up manufacturing in the U.S., which is expected to create thousands of jobs. As part of the initiative, Honda expects to double the capacity of its Greensburg, Indiana, plant to produce 200,000 cars a year, which will require the company to add 1,000 workers there. While the decision has been driven, in part, by the strength of the yen, we maintain that it is also a vote of confidence in U.S. manufacturing. On a broader scale, the economy is getting a boost from exporting, with the value of goods exported as a percentage of GDP growing from 7.3% in the first quarter of 2009 to 9.9% in the third quarter of 2011, according to the U.S. Department of Commerce. During the same period, the value of goods produced in the U.S. grew from approximately 25% of GDP to 28%.

Alger believes this is an exciting time for investors. Our research-driven and time-tested strategy for finding companies that can benefit from large-scale changes, such as those involving consumers, technology, emerging markets, and the economy is highly appropriate for these challenging times and, we believe, one which offers our clients potential for achieving attractive long-term performance.

Portfolio Matters

The Alger Capital Appreciation Portfolio returned -0.30% for the one-year period ended December 31, 2011, compared to the 2.18 return of its benchmark, the Russell 3000 Growth Index.

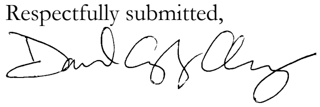
During the period, the largest sector weightings in the Portfolio were in the Information Technology and Consumer Discretionary sectors. The largest sector overweight was in Industrials and the largest sector underweight was in Consumer Staples. Relative outperformance in the Information Technology and Telecommunication Services sectors was the most important contributor to performance, while Financials and Energy detracted from results.

Among the most important relative contributors were Cisco Systems, Inc.; Aetna, Inc.; Lowe's Companies, Inc.; Goodrich Corp.; and Pfizer, Inc. Shares of home improvement retailer Lowe's generated strong returns after the company announced an increases in same store sales in the aftermath of Hurricane Irene. Lowe's also announced that it had initiated a significant stock repurchase program.

Conversely, detracting from relative performance were Baker Hughes, Inc.; Arch Coal, Inc.; Newfield Exploration Co.; and International Business Machines Corp. Also detracting from performance was Human Genome Sciences, Inc. It is developing lupus treatments and its stock performed poorly following an announcement that sales of its Benlysta treatment were weak.

As always, we strive to deliver consistently superior investment results for you, our shareholders, and we thank you for your business and your continued confidence in Alger.

Respectfully submitted,



Daniel C. Chung, CFA
Chief Investment Officer

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

This report and the financial statements contained herein are submitted for the general information of shareholders of The Alger Portfolios. This report is not authorized for distribution to prospective investors in the Portfolios unless proceeded or accompanied by an effective prospectus. Individual Portfolio returns represent the fiscal 12-month period return of Class I-2 shares. Returns include reinvestment of dividends and distributions.

The performance information quoted in this material represents past performance, which is not an indication or a guarantee of future results.

Standard performance results can be found on the following pages. The investment return and principal value of an investment in a fund 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 Alger Portfolio's management in this report are as of the date of the Shareholders Letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a Portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a fund 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, 2011. Securities mentioned in the Shareholders Letter, if not found in the Schedule of Investments, may have been held by the Portfolios during the 12-month fiscal period.

A Word about Risk

Growth stocks tend to be more volatile than other stocks as the price of growth stocks tends to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments. Investing in the stock market involves gains and losses and may not be suitable for all investors. Stocks of small- and mid-sized companies are subject to greater risk than stocks of larger, more established companies owing to such factors as limited liquidity, inexperienced management, and limited financial resources. Portfolios that participate in leveraging, such as the Alger Capital Appreciation Portfolio, are subject to the risk that the cost of 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.

Before investing, carefully consider a Portfolio's investment objective, risks, charges, and expenses.

For a prospectus or a summary prospectus containing this and other information about the Alger Funds call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing.

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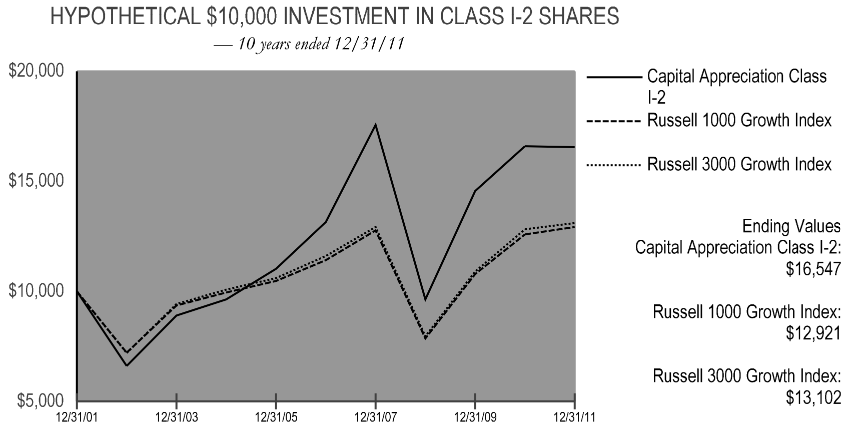
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- Standard & Poor's 500 Index (S&P 500 Index) is an index of 500 leading companies in leading industries in the United States.
- Empirical Research Partners provides research on a variety of investment topics for institutional investors.
- Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on the total market capitalization, which represents 98% of the U.S. Equity Market.



The chart above illustrates the change in value of a hypothetical $10,000 investment made in Alger Capital Appreciation Portfolio Class I-2 shares, the Russell 1000 Growth Index and the Russell 3000 Growth Index (unmanaged indexes of common stocks) for the ten years ended December 31, 2011. Figures for the Alger Capital Appreciation Portfolio Class I-2, shares the Russell 1000 Growth Index and the Russell 3000 Growth Index include reinvestment of dividends. Performance for Alger Capital Appreciation Portfolio Class S shares will be lower than the results shown above due to the higher expenses that class bears.

PERFORMANCE COMPARISON AS OF 12/31/11

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	(0.30)%	4.71%	5.17%	12.05%
Class S (Inception 5/1/02)(i)	(0.63)%	4.40%	4.93%	11.79%
Russell 1000 Growth Index	2.64%	2.50%	2.60%	7.14%
Russell 3000 Growth Index	2.18%	2.46%	2.74%	6.94%

The performance data quoted represents past performance, which is not an indication or a guarantee of future results. Investment return and principal will fluctuate and the Portfolio's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. For performance current to the most recent month end, visit us at www.alger.com or call us at (800) 992-3863.

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

(i) *Since inception returns are calculated from Class I-2 inception date. Class S shares returns prior to their commencement of operations are that of Class I-2 shares adjusted to reflect the higher expenses of Class S shares.*

Portfolio Summary†

December 31, 2011 *(Unaudited)*

SECTORS	
Consumer Discretionary	15.4%
Consumer Staples	9.0
Energy	9.8
Financials	2.3
Health Care	12.9
Industrials	14.2
Information Technology	25.7
Materials	4.2
Telecommunication Services	2.4
Short-Term and Net Other Assets	4.1
	100.0%

† *Based on net assets for the Portfolio*.

COMMON STOCKS—95.5%	SHARES	VALUE
ADVERTISING—1.3%		
Focus Media Holding Ltd.#*	198,091	**$ 3,860,794**
AEROSPACE & DEFENSE—1.3%		
Goodrich Corp.	11,100	1,373,070
United Technologies Corp.	34,500	2,521,605
		3,894,675
AIR FREIGHT & LOGISTICS—2.1%		
FedEx Corp.	18,400	1,536,584
United Parcel Service, Inc., Cl. B	68,800	5,035,472
		6,572,056
AIRLINES—0.4%		
United Continental Holdings, Inc.*	71,000	**1,339,770**
APPAREL RETAIL—0.4%		
Abercrombie & Fitch Co., Cl. A	25,400	**1,240,536**
APPLICATION SOFTWARE—1.0%		
Adobe Systems, Inc. *	33,200	938,564
Nice Systems Ltd. #*	20,500	706,225
Salesforce.com, Inc. *	14,200	1,440,732
		3,085,521
ASSET MANAGEMENT & CUSTODY BANKS—0.2%		
Blackstone Group LP	52,700	**738,327**
AUTO PARTS & EQUIPMENT—0.8%		
Delphi Automotive PLC *	36,300	781,902
Lear Corp.	41,300	1,643,740
		2,425,642
BIOTECHNOLOGY—1.4%		
Dendreon Corp. *	42,900	326,040
Gilead Sciences, Inc. *	48,500	1,985,105
Human Genome Sciences, Inc. *	64,700	478,133
United Therapeutics Corp. *	33,985	1,605,791
		4,395,069
BROADCASTING & CABLE TV—0.4%		
CBS Corp., Cl. B	48,500	**1,316,290**
CABLE & SATELLITE—0.9%		
Comcast Corporation, Cl. A	123,100	**2,918,701**
CASINOS & GAMING—1.0%		
Las Vegas Sands Corp.*	69,800	**2,982,554**
COAL & CONSUMABLE FUELS—0.6%		
Arch Coal, Inc.	121,700	**1,765,867**
COMMUNICATIONS EQUIPMENT—2.2%		
Ciena Corp. *	30,400	367,840
Cisco Systems, Inc.	61,600	1,113,728
QUALCOMM, Inc.	97,600	5,338,720
		6,820,288

COMMON STOCKS—(CONT.)	SHARES	VALUE
COMPUTER HARDWARE—7.3%		
Apple, Inc.*	55,300	$ **22,396,500**
COMPUTER STORAGE & PERIPHERALS—1.6%		
EMC Corp. *	76,200	1,641,348
NetApp, Inc. *	66,300	2,404,701
Seagate Technology PLC	63,400	1,039,760
		5,085,809
CONSTRUCTION & ENGINEERING—0.2%		
Chicago Bridge & Iron Co., NV#	18,900	**714,420**
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—2.3%		
Caterpillar, Inc.	46,722	4,233,013
Deere & Co.	15,800	1,222,130
WABCO Holdings, Inc. *	35,838	1,555,369
		7,010,512
DATA PROCESSING & OUTSOURCED SERVICES—0.9%		
Mastercard, Inc.	7,800	**2,907,996**
DIVERSIFIED BANKS—1.1%		
Wells Fargo & Co.	121,200	**3,340,272**
DIVERSIFIED METALS & MINING—1.3%		
Freeport-McMoRan Copper & Gold, Inc.	80,300	2,954,237
Molycorp, Inc. *	41,300	990,374
		3,944,611
DRUG RETAIL—2.2%		
CVS Caremark Corp.	165,200	**6,736,856**
EDUCATION SERVICES—0.5%		
New Oriental Education & Technology Group#*	65,800	**1,582,490**
ELECTRICAL COMPONENTS & EQUIPMENT—0.9%		
Cooper Industries PLC, CL. A	50,700	**2,745,405**
ENVIRONMENTAL & FACILITIES SERVICES—0.5%		
Republic Services, Inc.	54,820	**1,510,291**
FERTILIZERS & AGRICULTURAL CHEMICALS—0.8%		
Monsanto Co.	22,200	1,555,554
Mosaic Co., /The	17,500	882,525
		2,438,079
FOOTWEAR—1.1%		
NIKE, Inc., Cl. B	19,500	1,879,215
Salvatore Ferragamo Italia SpA *	106,563	1,404,180
		3,283,395
GENERAL MERCHANDISE STORES—1.6%		
Dollar General Corp. *	46,800	1,925,352
Target Corp.	61,600	3,155,152
		5,080,504
HEALTH CARE EQUIPMENT—1.7%		
Covidien PLC	90,200	4,059,902
Insulet Corp. *	59,400	1,118,502
		5,178,404

COMMON STOCKS—(CONT.)	SHARES	VALUE
HEALTH CARE FACILITIES—0.9%		
HCA Holdings, Inc. *	41,100	$ 905,433
Universal Health Services, Inc., Cl. B	45,000	1,748,700
		2,654,133
HEALTH CARE SERVICES—1.4%		
Express Scripts, Inc.*	100,000	**4,469,000**
HOME IMPROVEMENT RETAIL—1.9%		
Lowe's Companies, Inc.	227,000	**5,761,260**
HOMEBUILDING—0.6%		
Lennar Corp., Cl. A	34,100	670,065
Toll Brothers, Inc. *	51,900	1,059,798
		1,729,863
HOTELS RESORTS & CRUISE LINES—0.2%		
Wyndham Worldwide Corporation	17,000	**643,110**
HOUSEHOLD PRODUCTS—2.5%		
Procter & Gamble Co., /The	113,500	**7,571,585**
HUMAN RESOURCE & EMPLOYMENT SERVICES—0.3%		
Towers Watson & Co.	17,900	**1,072,747**
INDUSTRIAL CONGLOMERATES—0.7%		
Tyco International Ltd.	46,800	**2,186,028**
INDUSTRIAL MACHINERY—2.4%		
Eaton Corp.	24,700	1,075,191
Ingersoll-Rand PLC	8,000	243,760
Stanley Black & Decker, Inc.	80,500	5,441,800
Timken Co.	18,300	708,393
		7,469,144
INTEGRATED OIL & GAS—3.9%		
ConocoPhillips	95,400	6,951,798
Royal Dutch Shell PLC #	66,600	4,867,794
		11,819,592
INTERNET RETAIL—1.9%		
Amazon.com, Inc.*	35,370	**6,122,546**
INTERNET SOFTWARE & SERVICES—6.5%		
eBay, Inc. *	153,200	4,646,556
Google, Inc., Cl. A *	12,300	7,944,570
IAC/InterActiveCorp.	84,200	3,586,920
VistaPrint NV *	103,400	3,164,040
Yahoo! Inc. *	40,300	650,039
		19,992,125
IT CONSULTING & OTHER SERVICES—2.4%		
Cognizant Technology Solutions Corp., Cl. A *	23,300	1,498,423
International Business Machines Corp.	32,000	5,884,160
		7,382,583
LEISURE PRODUCTS—1.2%		
Coach, Inc.	14,900	909,496
Hanesbrands, Inc. *	42,900	937,794

COMMON STOCKS—(CONT.)	SHARES	VALUE
LEISURE PRODUCTS—(CONT.)		
PVH Corp.	25,600	$ 1,804,544
		3,651,834
LIFE & HEALTH INSURANCE—0.0%		
MetLife, Inc.	4,700	**146,546**
LIFE SCIENCES TOOLS & SERVICES—1.2%		
Life Technologies Corp. *	43,300	1,684,803
Thermo Fisher Scientific, Inc. *	44,500	2,001,165
		3,685,968
MANAGED HEALTH CARE—3.3%		
Aetna, Inc.	156,500	6,602,735
Cigna Corp.	43,400	1,822,800
UnitedHealth Group, Inc.	33,700	1,707,916
		10,133,451
MORTGAGE REITS—0.3%		
Annaly Capital Management, Inc.	62,600	**999,096**
OIL & GAS EQUIPMENT & SERVICES—3.3%		
Baker Hughes, Inc.	105,900	5,150,976
Cameron International Corp. *	22,000	1,082,180
Halliburton Company	81,700	2,819,467
National Oilwell Varco, Inc.	18,700	1,271,413
		10,324,036
OIL & GAS EXPLORATION & PRODUCTION—1.1%		
Cabot Oil & Gas Corp.	6,400	485,760
Kodiak Oil & Gas Corp. *	102,000	969,000
Pioneer Natural Resources Co.	17,500	1,565,900
Whitinig Petroleum Corp. *	9,900	462,231
		3,482,891
OIL & GAS REFINING & MARKETING—0.3%		
Marathon Petroleum Corp.	26,500	**882,185**
OIL & GAS STORAGE & TRANSPORTATION—0.6%		
Plains All American Pipeline LP	27,100	**1,990,495**
OTHER DIVERSIFIED FINANCIAL SERVICES—0.1%		
JPMorgan Chase & Co.	9,241	**307,263**
PAPER PRODUCTS—0.4%		
International Paper Co.	42,600	**1,260,960**
PHARMACEUTICALS—2.7%		
Allergan, Inc.	7,800	684,372
Johnson & Johnson	43,200	2,833,056
Pfizer, Inc.	195,000	4,219,800
Teva Pharmaceutical Industries Ltd. #	17,800	718,408
		8,455,636
RAILROADS—1.1%		
CSX Corp.	154,400	**3,251,664**
RESEARCH & CONSULTING SERVICES—0.7%		
IHS, Inc., Cl. A *	8,500	732,360

COMMON STOCKS—(CONT.)	SHARES	VALUE
RESEARCH & CONSULTING SERVICES—(CONT.)		
Verisk Analytic, Inc., Cl. A *	34,100	$ 1,368,433
		2,100,793
RESIDENTIAL REITS—0.6%		
Home Properties, Inc.	29,666	**1,707,872**
RESTAURANTS—1.6%		
McDonald's Corp.	40,400	4,053,332
Starbucks Corp.	18,100	832,781
		4,886,113
SEMICONDUCTOR EQUIPMENT—0.5%		
Lam Research Corp.*	40,700	**1,506,714**
SEMICONDUCTORS—2.0%		
Avago Technologies Ltd.	57,200	1,650,792
Broadcom Corp., Cl. A *	66,200	1,943,632
ON Semiconductor Corp. *	129,900	1,002,828
Skyworks Solutions, Inc. *	102,700	1,665,794
		6,263,046
SOFT DRINKS—2.8%		
Coca-Cola Co., /The	60,000	4,198,200
PepsiCo, Inc.	69,400	4,604,690
		8,802,890
SPECIALTY CHEMICALS—1.6%		
Celanese Corp.	36,100	1,598,147
Cytec Industries, Inc.	43,330	1,934,685
Rockwood Holdings, Inc. *	32,500	1,279,525
		4,812,357
STEEL—0.0%		
Allegheny Technologies, Inc.	2,800	**133,840**
SYSTEMS SOFTWARE—1.3%		
Oracle Corp.	150,400	**3,857,760**
TOBACCO—1.5%		
Philip Morris International, Inc.	60,300	**4,732,344**
TRADING COMPANIES & DISTRIBUTORS—1.0%		
United Rentals, Inc. *	60,500	1,787,775
WESCO International, Inc. *	23,900	1,266,939
		3,054,714
TRUCKING—0.3%		
Hertz Global Holdings, Inc.*	67,700	**793,444**
WIRELESS TELECOMMUNICATION SERVICES—2.4%		
American Tower Corp., Cl. A	35,700	2,142,357
SBA Communications Corp. *	44,798	1,924,522
Vodafone Group PLC #	115,100	3,226,253
		7,293,132
TOTAL COMMON STOCKS		
(Cost $294,650,266)		**294,702,394**

CONVERTIBLE PREFERRED STOCK—0.3%	SHARES	VALUE
PHARMACEUTICALS—0.3%		
Merrimack Pharmaceuticals, Inc., Series G*,L3,(a)	129,055	$ **903,385**
(Cost $903,385)		

CONVERTIBLE CORPORATE BONDS—0.1%	PRINCIPAL AMOUNT	VALUE
DIVERSIFIED METALS & MINING—0.1%		
Molycorp, Inc., 3.25%, 6/15/16L2(b)		
(Cost $260,000)	260,000	**222,300**

Total Investments		
(Cost $295,813,651)(c)	95.9%	295,828,079
Other Assets in Excess of Liabilities	4.1	12,529,577
NET ASSETS	100.0%	$ **308,357,656**

‡ *Securities classified as Level 1 for ASC 820 disclosure purposes based on valuation inputs unless otherwise noted. See Notes 2 and 8 to the Financial Statements.*

* *Non-income producing security.*
\# *American Depository Receipts.*
(a) *Restricted Security - Investment in security not registered under the Securities Act of 1933 and deemed to be illiquid. Security was acquired on April 6, 2011 for a cost of $903,385 and represents 0.3% of the net assets of the Fund.*
(b) *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 0.1% of the net assets of the Fund.*
(c) *At December 31, 2011, the net unrealized depreciation on investments, based on cost for federal income tax purposes of $298,274,775, amounted to $2,446,696 which consisted of aggregate gross unrealized appreciation of $20,055,901 and aggregate gross unrealized depreciation of $22,502,597.*
L2 *Security classified as Level 2 for ASC 820 disclosure purposes based on valuation inputs.*
L3 *Security classified as Level 3 for ASC 820 disclosure purposes based on valuation inputs.*

Industry classifications are unaudited.
See Notes to Financial Statements.

ASSETS:		
Investments in securities, at value (Identified cost)* see accompanying schedule of investments	$	295,828,079
Cash and cash equivalents		9,581,861
Receivable for investment securities sold		2,458,459
Receivable for shares of beneficial interest sold		4,273,793
Dividends and interest receivable		309,302
Prepaid expenses		41,706
Total Assets		312,493,200
LIABILITIES:		
Payable for investment securities purchased		3,488,756
Payable for shares of beneficial interest redeemed		328,597
Accrued investment advisory fees		208,140
Accrued transfer agent fees		4,440
Accrued distribution fees		2,555
Accrued administrative fees		7,066
Accrued shareholder servicing fees		2,570
Accrued other expenses		93,420
Total Liabilities		4,135,544
NET ASSETS	**$**	**308,357,656**
Net Assets Consist of:		
Paid in capital		336,377,603
Undistributed net investment income		712,938
Accumulated net realized loss		(28,747,314)
Net unrealized appreciation on investments		14,429
NET ASSETS	**$**	**308,357,656**
Net Asset Value Per Share		
Class I-2		$51.96
Class S		$50.72
Net Assets By Class		
Class I-2	$	296,319,567
Class S	$	12,038,090
Shares of Benefical Interest Outstanding— Note 6 (Par Value $.001)		
Class I-2		5,703,384
Class S		237,351
*Identified Cost	$	295,813,651

Statement of Operations

For the year ended December 31, 2011

INCOME:		
Dividends (net of foreign withholding taxes*)	$	3,699,801
Interest		7,580
Total Income		3,707,381
EXPENSES		
Advisory fees—Note 3(a)		2,476,132
Distribution fees Class S—Note 3(b)		31,513
Administrative fees—Note 3(a)		84,066
Custodian fees		57,950
Fund accounting fees		49,069
Transfer agent fees and expenses—Note 3(d)		62,700
Printing fees		113,600
Professional fees		36,478
Registration fees		56,989
Trustee fees—Note 3(e)		19,410
Miscellaneous		19,188
Total Expenses		3,007,095
Less, expense reimbursements/waivers—Note 3(a)		(98,000)
Net Expenses		2,909,095
NET INVESTMENT INCOME		798,286
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY TRANSACTIONS:		
Net realized gain on investments and purchased options		24,078,091
Net realized loss on foreign currency transactions		(64,153)
Net change in unrealized appreciation (depreciation) on investments and foreign currency		(25,798,285)
Net realized and unrealized loss on investments, options and foreign currency		(1,784,347)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**(986,061)**
*Foreign withholding taxes	$	62,566

See Notes to Financial Statements.

	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010
Net investment income	$ 798,286	$ 410,568
Net realized gain on investments, options and foreign currency transactions	24,013,938	28,451,180
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency	(25,798,285)	6,552,324
Net increase (decrease) in net assets resulting from operations	(986,061)	35,414,072
Dividends and distributions to shareholders from:		
Net investment income		
Class I-2	(309,449)	(1,008,170)
Class S	—	(27,573)
Net realized gains		
Class I-2	—	—
Class S	—	—
Total dividends and distributions to shareholders	(309,449)	(1,035,743)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	13,246,492	1,833,933
Class S	(578,230)	(2,017,960)
Net increase (decrease) from shares of beneficial interest transactions—Note 6	12,668,262	(184,027)
Total increase	11,372,752	34,194,302
Net Assets:		
Beginning of period	296,984,904	262,790,602
END OF PERIOD	**$ 308,357,656**	**$ 296,984,904**
Undistributed net investment income	$ 712,938	$ 267,733

 See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2				
	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009	Year ended 12/31/2008	Year ended 12/31/2007
Net asset value, beginning of period	$ 52.16	$ 45.92	$ 30.39	$ 55.39	$ 41.48
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income (loss)(i)	0.15	0.08	0.18	0.05	(0.07)
Net realized and unrealized gain (loss) on investments	(0.29)	6.34	15.35	(25.05)	13.98
Total from investment operations	(0.14)	6.42	15.53	(25.00)	13.91
Dividends from net investment income	(0.06)	(0.18)	—	—	—
Net asset value, end of period	$ 51.96	$ 52.16	$ 45.92	$ 30.39	$ 55.39
Total return	(0.30)%	14.03%	51.10%	(45.13)%	33.53%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 296,320	$ 284,225	$ 249,483	$ 183,335	$ 414,959
Ratio of gross expenses to average net assets	0.97%	0.98%	0.99%	0.95%	0.97%
Ratio of expense reimbursements to average net assets	(0.03)%	(0.04)%	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.94%	0.94%	0.95%	0.91%	0.93%
Ratio of net investment income to average net assets	0.28%	0.17%	0.49%	0.12%	(0.15)%
Portfolio turnover rate	156.27%	203.56%	285.33%	317.72%	254.03%

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

See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class S				
	Year ended 12/31/2011	Year ended 12/31/2010	Year ended 12/31/2009	Year ended 12/31/2008	Year ended 12/31/2007
Net asset value, beginning of period	$ 51.04	$ 45.01	$ 29.86	$ 54.57	$ 40.97
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income (loss)(i)	(0.04)	(0.08)	0.08	(0.05)	(0.16)
Net realized and unrealized gain (loss) on investments	(0.28)	6.20	15.07	(24.66)	13.76
Total from investment operations	(0.32)	6.12	15.15	(24.71)	13.60
Dividends from net investment income	—	(0.09)	—	—	—
Net asset value, end of period	$ 50.72	$ 51.04	$ 45.01	$ 29.86	$ 54.57
Total return	(0.63)%	13.63%	50.69%	(45.28)%	33.20%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 12,038	$ 12,760	$ 13,307	$ 9,369	$ 20,783
Ratio of gross expenses to average net assets	1.31%	1.34%	1.24%	1.20%	1.22%
Ratio of expense reimbursements to average net assets	(0.03)%	(0.04)%	(0.04)%	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	1.28%	1.30%	1.20%	1.16%	1.18%
Ratio of net investment income to average net assets	(0.07)%	(0.18)%	0.23%	(0.12)%	(0.34)%
Portfolio turnover rate	156.27%	203.56%	285.33%	317.72%	254.03%

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

 See Notes to Financial Statements.

NOTE 1 — General:

The Alger Portfolios (the "Fund") is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund operates as a series company currently issuing seven series of shares of beneficial interest: the Alger Capital Appreciation Portfolio, Alger Large Cap Growth Portfolio, Alger Mid Cap Growth Portfolio, Alger SMid Cap Growth Portfolio, Alger Small Cap Growth Portfolio, Alger Growth & Income Portfolio, and Alger Balanced Portfolio (collectively the "Portfolios"). These financial statements include only the Alger 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 I-2 shares and Class S shares. Each class has identical rights to assets and earnings except that only Class S shares have a plan of distribution and bear the related expenses.

NOTE 2 — Significant Accounting Policies:

(a) Investment Valuation: The Portfolio values its financial instruments at fair value using independent dealers or pricing services under policies approved by the Funds Board of Trustees. Investments of the Portfolio are valued on each day the New York Stock Exchange (the "NYSE") is open, as of the close of the NYSE (normally 4:00 p.m. Eastern time).

Equity securities and option contracts for which 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 ask price or, in the absence of a recent bid or ask price, the equivalent as obtained from one or more of the major market makers for the securities to be valued.

Debt securities generally trade in the over-the-counter market. Securities with remaining maturities of more than sixty days at the time of acquisition are valued on the basis of last available bid prices or current market quotations provided by dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrixes, market transactions in comparable investments, various relationships observed in the market between investments and calculated yield measures based on valuation technology commonly employed in the market for such investments. Asset-backed and mortgage-backed securities are valued by independent pricing services using models that consider estimated cash flows of each tranche of the security, establish a benchmark yield and develop an estimated tranche-specific spread to the benchmark yield based on the unique attributes of the tranche. Debt securities with a remaining maturity of less than sixty days are valued at amortized cost which approximates market value.

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

Securities in which the Portfolio invests may be traded in foreign markets that close before the close of the NYSE. Developments that occur between the close of the foreign markets and the close of the NYSE may result in adjustments to the closing prices to reflect what the investment adviser, 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.

Financial Accounting Standards Board Accounting Standards Codification 820 – Fair Value Measurements and Disclosures ("ASC 820") defines fair value as the price that the Portfolio would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. "Inputs" refer broadly to the assumptions that market participants would use in pricing the asset or liability and may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Portfolio. Unobservable inputs are inputs that reflect the Portfolio's, own assumptions based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

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

The Portfolio's valuation techniques are 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. Inputs for Level 1 include exchange listed prices and broker quotes in an active market. Inputs for Level 2 include the last trade price in the case of a halted security, a broker quote in an inactive market, an exchange-listed price which has been adjusted for fair value factors, and prices of closely related securities. Additional Level 2 inputs include an evaluated price which is based upon on a compilation of observable market information such as spreads for fixed income and preferred securities. Inputs for Level 3 include derived prices from unobservable market information which can include cash flows and other information obtained from a company's financial statements, or from market indicators such as benchmarks and indices.

(b) Cash and Cash Equivalents: Cash and cash equivalents include U.S. dollars and overnight time deposits.

(c) Security Transactions and Investment Income: Security transactions are recorded on a trade date basis. Realized gains and losses from security transactions are recorded on the identified cost basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis.

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

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

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

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

The Portfolio may also purchase put and call options. 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 of loss associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying security to determine the realized gain or loss.

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

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

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

The characterization of distributions to shareholders for financial reporting purposes is determined in accordance with federal income tax rules. Therefore, the source of the Portfolio's distributions may be shown in the accompanying financial statements as either from, or in excess of, net investment income 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 or loss from foreign currency transactions, and realized gains from redemptions in kind, if any. The reclassifications have no impact on the net asset values of the Portfolio and were 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 Subchapter M applicable to regulated investment companies and to distribute all of the taxable income, including net realized capital gains, of the Portfolio to its shareholders. Therefore, no federal income tax provision is required.

Financial Accounting Standards Board Accounting Standards Codification 740 – Income Taxes ("ASC 740") requires the Portfolio to measure and recognize in its financial statements the benefit of a tax position taken (or expected to be taken) on an income tax return if such position will more likely than not be sustained upon examination based on the technical merits of the position. No tax years are currently under investigation. The Portfolio files income tax returns in the U.S. Federal jurisdiction, as well as the New York State and New York City jurisdictions. The statute of limitations on the Portfolio's tax returns remains open for the tax years 2007-2011. Management does not believe there are any uncertain tax positions that require recognition of a tax liability.

(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 and transfer agency fees.

(i) Estimates: These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require using estimates and assumptions that affect the reported amounts therein. 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" or "Manager"), are payable monthly and computed based on the average daily net assets of the Portfolio at the following annual rate:

	Advisory Fee	Administration Fee
Alger Capital Appreciation Portfolio	.810%	.0275%

As part of a settlement with the New York State Attorney General dated October 11, 2006, Alger Management agreed to reduce its advisory fee listed above to 0.775% for the Portfolio for the period from December 1, 2006 through November 30, 2011. For the year ended December 31, 2011, Alger Management reimbursed the Portfolio $98,000.

(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" or "Alger Inc."), 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 Alger Inc.

(c) Brokerage Commissions: During the year ended December 31, 2011, the Portfolio paid the Alger Inc. $308,654, in connection with securities transactions.

(d) Shareholder Administrative Fees: The Fund has entered into a shareholder administrative services agreement with Alger Management to compensate Alger Management for its liaison and administrative oversight of Boston Financial Data Services, Inc., the transfer agent, and other related services. The Portfolio compensates Alger Management at the annual rate of 0.01% of the average daily net assets for these services. For the year ended December 31, 2011, the Portfolio incurred fees of $30,570, for these services, which are included in transfer agent fees and expenses in the Statements of Operations.

(e) Trustee Fees: The Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $750 for each meeting attended, to a maximum of $3,000 per annum, plus travel expenses incurred for attending the meeting. The chairman of the Board of Trustees receives an additional annual fee of $15,000 which is paid, pro rata, by all funds managed by Alger Management. Additionally, each member of the audit committee receives an additional $75 for each audit committee meeting attended, to a maximum of $300 per annum.

(f) Interfund Loans: The Portfolio, along with other funds advised by Alger Management, may borrow money from and lend money to each other for temporary or emergency purposes. To the extent permitted under its investment restrictions, the Portfolio may lend uninvested cash in an amount up to 15% of its net assets to other Portfolios. If the Portfolio has borrowed from other Portfolios and has aggregate borrowings from all sources that exceed 10% of the Portfolio's total assets, the Portfolio will secure all of its loans from other Portfolios. The interest rate charged on interfund loans is equal to the average of the overnight time deposit rate and bank loan rate available to the Portfolios.

During the year ended December31, 2011, the Portfolio had no interfund loans.

(g) Other Transactions With Affiliates: Certain officers of the Fund are directors and officers of Alger Management and the Distributor.

NOTE 4 — Securities Transactions:

Purchases and sales of securities, other than U.S. Government and short-term securities, for the year ended December 31, 2011, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$476,834,293	$464,960,794

NOTE 5 — Borrowing:

The Portfolio may borrow from its custodian on an uncommitted basis. The Portfolio pays the custodian a market rate of interest, generally based upon the London Inter-Bank Offered Rate. The Portfolio may also borrow from other portfolios advised by Alger Management, as discussed in Note 3 (f). For the year ended December 31, 2011, the Portfolio had no borrowings.

NOTE 6 — Share Capital:

The Fund has an unlimited number of authorized shares of beneficial interest of $.001 par value for each share class. During the year ended December 31, 2011 and the year ended December 31, 2010, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2011		FOR THE YEAR ENDED DECEMBER 31, 2010	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	1,642,240	$ 86,804,964	1,334,855	$ 62,669,328
Dividends reinvested	5,448	309,449	21,423	1,008,170
Shares redeemed	(1,393,816)	(73,867,921)	(1,340,201)	(61,843,565)
Net increase	**253,872**	**$ 13,246,492**	**16,077**	**$ 1,833,933**
Class S:				
Shares sold	54,914	$ 2,951,941	44,732	$ 2,044,736
Dividends reinvested	—	—	597	27,573
Shares redeemed	(67,584)	(3,530,171)	(90,962)	(4,090,269)
Net decrease	**(12,670)**	**$ (578,230)**	**(45,633)**	**$ (2,017,960)**

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2011 and the year ended December 31, 2010 was as follows:

		YEAR ENDED DECEMBER 31, 2011		YEAR ENDED DECEMBER 31, 2010
Alger Capital Appreciation Portfolio				
Distributions paid from:				
Ordinary Income	$	309,449	$	1,035,743
Long-term capital gain		—		—
Total distributions paid	$	309,449	$	1,035,743

As of December 31, 2011, the components of accumulated gains and losses on a tax basis were as follows:

Alger Capital Appreciation Portfolio		
Undistributed ordinary income	$	701,918
Undistributed long-term gains		—
Net accumulated earnings		701,918
Capital loss carryforwards		(26,275,170)
Net unrealized depreciation		(2,446,695)
Total accumulated losses	$	(28,019,947)

At December 31, 2011, 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 Dates		Alger Capital Appreciation Portfolio
2016	$	4,510,294
2017		21,764,876
Total		26,275,170

Net capital losses incurred after October 31 and within the taxable year are deemed to arise on the first business day of the portfolio's next taxable year.

Under the recently enacted Regulated Investment Company Modernization Act of 2010, capital losses incurred by the Portfolio on or after January 1, 2011 will not be subject to expiration. In addition, losses incurred on or after January 1, 2011 must be utilized prior to the utilization of capital loss carryforwards above.

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, the tax treatment of partnership investments, the realization of unrealized appreciation of Passive Foreign Investments Companies, and return of capital from Real Estate Investment Trust investments.

Permanent differences, primarily from net operating losses and real estate investment trusts and partnership investments sold by the Portfolio, resulted in the following reclassifications among the Portfolio's components of net assets at December 31, 2011:

Alger Capital Appreciation Portfolio		
Undistributed net investment income	$	(43,631)
Accumulated net realized loss	$	63,773
Paid in capital	$	(20,142)

NOTE 8 — Fair Value Measurements:

The major categories of securities and their respective fair value inputs are detailed in each Portfolio's Schedule of Investments. The following is a summary of the inputs used as of December 31, 2011 in valuing the Portfolio's investments carried at fair value.

Alger Capital Appreciation Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
COMMON STOCKS				
Consumer Discretionary	$ 47,485,632	$ 47,485,632	—	—
Consumer Staples	27,843,675	27,843,675	—	—
Energy	30,265,066	30,265,066	—	—
Financials	7,239,376	7,239,376	—	—
Health Care	38,971,661	38,971,661	—	—
Industrials	43,715,663	43,715,663	—	—
Information Technology	79,298,342	79,298,342	—	—
Materials	12,589,847	12,589,847	—	—
Telecommunication Services	7,293,132	7,293,132	—	—
TOTAL COMMON STOCKS	**$ 294,702,394**	**$ 294,702,394**	**—**	**—**
CONVERTIBLE CORPORATE BONDS				
Materials	$ 222,300	—	$ 222,300	—
CONVERTIBLE PREFERRED STOCK				
Health Care	$ 903,385	—	—	$ 903,385
TOTAL INVESTMENTS IN SECURITIES	**$ 295,828,079**	**$ 294,702,394**	**$ 222,300**	**$ 903,385**

Alger Capital Appreciation Portfolio		FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL3) Convertible Preferred Stock
Opening balance at January 1, 2011	$	—
Transfers into Level 3		—
Transfers out of Level 3		—
Total gains or losses		
Included in net realized gain (loss) on investments		—
Included in net unrealized gain (loss) on investments		—
Purchases, issuances, sales, and settlements		
Purchases	$	903,385
Issuances		—
Sales		—
Settlements		—
Closing balance at December 31, 2011		903,385
The amount of total gains or losses for the period included in net realized and unrealized gain (loss) attributable to change in unrealized appreciation (depreciation) relating to investments still held at December 31, 2011	**$**	**—**

For the year ended December 31, 2011, there were no significant transfers between Level 1 and Level 2.

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging ("ASC 815") 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.

Forward currency contracts—In connection with portfolio purchases and sales of securities denominated in foreign currencies, the Portfolio may enter into forward currency contracts. Additionally, the Portfolio may enter into such contracts to economically hedge certain other foreign currency denominated investments. These contracts are valued at the current cost of covering or offsetting such contracts, and the related realized and unrealized foreign exchange gains and losses are included in the statement of operations. In the event that counterparties fail to settle these currency contracts or the related foreign security trades, the Portfolio could be exposed to foreign currency fluctuations.

Options—The Portfolio seeks to capture the majority of the returns associated with equity market investments. To meet this investment goal, the Portfolio invests in a broadly diversified portfolio of common stocks, while also buying and selling call and put options on equities and equity indices. The Portfolio purchases call options to increase its exposure to stock market risk and also provide diversification of risk. The Portfolio purchases put options in order to protect from significant market declines that may occur over a short period of time. The Portfolio will write covered call and cash secured put options to generate cash flows while reducing the volatility of the portfolio. The cash flows may be an important source of the Portfolio's return, although written call options may reduce the Portfolio's ability to profit from increases in the value of the underlying security or equity portfolio. The value of a call option generally increases as the price of the underlying stock increases and decreases as the stock decreases in price. Conversely, the value of a put option generally increases as the price of the underlying stock decreases and decreases as the stock increases in price. The combination of the diversified stock portfolio and the purchase and sale of options is intended to provide the Portfolio with the majority of the returns associated with equity market investments but with reduced volatility and returns that are augmented with the cash flows from the sale of options. During the year ended December 31, 2011, written equity and index put options were used in accordance with this objective.

During the year ended December 31, 2011, the Portfolio had no derivative instruments.

NOTE 10 — Litigation:

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 the Manager and the Distributor had violated the West Virginia Uniform Securities Act (the "WVUSA"), and ordered the Manager and the Distributor 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 the Manager were served with similar orders. The Manager and the Distributor intend to request a hearing for the purpose of seeking to vacate or modify the order.

NOTE 11 — Recent Accounting Pronouncements:

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards). The ASU converges fair value measurement and disclosure guidance in U.S. GAAP with the guidance in the International Accounting Standards Board's concurrently issued IFRS 13, Fair Value Measurement. These amendments do not modify the requirements for when fair value measurements apply; rather, they generally represent clarifications on how to measure and disclose fair value under ASC 820, Fair Value Measurement. The application of ASU 2011-04 is required for fiscal years and interim periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU 2011-04.

NOTE 12 — Subsequent Event:

Management of the Portfolio has evaluated events that have occurred subsequent to December 31, 2011. No such events have been identified which require recognition and disclosure.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees of The Alger Portfolios:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger Capital Appreciation Portfolio, one of the portfolios constituting The Alger Portfolios (the "Fund") as of December 31, 2011, 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 three 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. The Fund's financial highlights for the respective periods ended December 31, 2008 were audited by other auditors, whose report dated February 10, 2009, expressed an unqualified opinion on such financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of their 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2011, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. 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 Capital Appreciation Portfolio of The Alger Portfolios as of December 31, 2011, 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 three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
New York, New York
February 16, 2012

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, 2011 and ending December 31, 2012.

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, 2011	Ending Account Value December 31, 2011	Expenses Paid During the Six Months Ended December 31, 2011(a)	Ratio of Expenses to Average Net Assets For the Six Months Ended December 31, 2011(b)
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 929.84	$ 4.56	0.94%
	Hypothetical(c)	1,000.00	1,020.48	4.78	0.94
Class S	Actual	1,000.00	928.26	6.21	1.28
	Hypothetical(c)	1,000.00	1,018.76	6.51	1.28

(a) Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).
(b) Annualized.
(c) 5% annual return before expenses.

Trustees and Officers of the Fund

Information about the trustees and officers of the Fund is set forth below. In the table the term "Alger Fund Complex" refers to the Fund, The Alger Funds, The Alger Institutional Funds, Alger China-U.S. Growth Fund and The Alger Funds II, 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 360 Park Avenue South, New York, NY 10010.

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Funds in the Alger Fund Complex which are Overseen by Trustee
INTERESTED TRUSTEE			
Hilary M. Alger (50)	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	25
NON-INTERESTED TRUSTEE			
Charles F. Baird, Jr. (58)	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.	2000	25
Roger P. Cheever (66)	Associate Vice President for Principal Gifts, and Senior Associate Dean for Development in the Faculty of Arts and Sciences at Harvard University; Formerly Deputy Director of the Harvard College Fund.	2000	25
Lester L. Colbert Jr. (77)	Private investor since 1988; Formerly Chairman of the Board, President and Chief Executive Officer of Xidex Corporation (manufacturer of computer information media).	2000	25
Stephen E. O'Neil (79)	Attorney. Private Investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1986	25
David Rosenberg (49)	Associate Professor of Law since January 2006 (Assistant Professor 2000-2005), Zicklin School of Business, Baruch College, City University of New York.	2007	25
Nathan E. Saint-Amand M.D. (74)	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.	1986	25

Name, Age, Position with the Fund	Principal Occupations	Trustee and/or Officer Since	Number of Funds in the Alger Fund Complex which are Overseen by Trustee
OFFICERS			
Dan C. Chung (49) President	Chief Investment Officer and Director since 2001, and Chief Executive Officer since 2006, of Alger Management; President and Chief Executive Officer since 2003 of Alger Associates, Inc. ("Associates"); Chairman of the Board of Directors since 2006 of Alger Inc.; President since 2003 and Director since 2003 of Analysts Resources, Inc. ("Resources"); Formerly Trustee of the Fund from 2001 to 2007.	2003	N/A
Hal Liebes (47) Secretary	Executive Vice President, Chief Legal Officer, Chief Operating Officer and Secretary of Alger Management, Associates and Alger Inc.; Director since 2006 of Alger Management, Alger Inc. and Resources.	2005	N/A
Lisa A. Moss (46) Assistant Secretary	Assistant General Counsel of Alger Management since 2006, currently serving as Senior Vice President.	2006	N/A
Joseph P. Graham (27) Assistant Secretary	Employed by Alger Management since 2011. Formerly, full-time student.	2011	N/A
Michael D. Martins (46) Treasurer	Senior Vice President of Alger Management.	2005	N/A
Anthony S. Caputo (56) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President.	2007	N/A
Sergio M. Pavone (50) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President.	2007	N/A
Barry J. Mullen (58) Chief Compliance Officer	Senior Vice President and Director of Compliance of Alger Management since 2006.	2006	N/A

Ms. Alger is an "interested person" (as defined in the Investment Company Act) of the Fund because of her affiliations with Alger Management. No Trustee is a director of any public company except as indicated under "Principal Occupations".

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

Investment Management Agreement Renewal

At an in-person meeting held on September 22, 2011, the Trustees, including the Independent Trustees, unanimously approved renewal of the Investment Advisory Agreement (the "Agreement") between the Fund and Fred Alger Management, Inc. ("Alger Management"). The Independent Trustees were assisted in their review by independent legal counsel and met with such 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 each 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 FUSE Research Network LLC ("FUSE"), an independent consulting firm selected by the Fund's Chief Compliance Officer, having no other relationship with Alger Management, 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 FUSE personnel provided a presentation to the Trustees based on the FUSE 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 established expertise in managing portfolios of "growth" stocks and that, according to an analysis provided by FUSE, the characteristics of each equity Portfolio had been consistent with those 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 enhanced 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 FUSE and upon reports provided to the Trustees by Alger Management throughout the preceding year, the Trustees reviewed each Portfolio's returns for the year-to-date (at June 30, 2011), second-quarter, and 1-, 3-, 5-, and 10-year periods to the extent available (and its year-by-year returns), together with supplemental data through August 31, 2011, and compared them with benchmark and peer-group data for the same periods. They noted that the Growth & Income Portfolio had consistently performed well, surpassing the median for its FUSE peer group for the year-to-date, second-quarter, and 1-, 3- and 5-year periods and beating its benchmark for all of those periods except the second-quarter and 3-year periods. Performance of the other Portfolios had been mixed, with the Large Cap Portfolio surpassing its peer median for the second quarter of 2011 and matching it for the 3- and 5-year periods and the Capital Appreciation Portfolio matching or surpassing its peer median for the second-quarter, year-to-date and 3- and 5-year periods through June 30, 2011; also, the Small Cap and Capital Appreciation Portfolios had generally matched or surpassed their benchmarks for the year-to-date and 3- and 5-year periods. Otherwise, performance had fallen short of both peer median and benchmark.

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, 2011. 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, FUSE had provided the Trustees with comparative information with respect to fees paid, and expense ratios incurred, by similar funds. That information indicated that the fees of the Large Cap, SMid Cap, Small Cap and Growth & Income Portfolios were below the median for the applicable FUSE reference groups, while those of the Mid Cap, Capital Appreciation and Balanced Portfolios exceeded the applicable median, as did all of the expense ratios except those of the SMid Cap Portfolio and the Class I-2 Shares of the Small Cap Portfolio. 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. The Trustees also considered fees paid to Alger Management by other types of clients, specifically mutual funds for which Alger Management was sub-adviser and separately managed accounts. The Trustees determined that in both cases the fees were of doubtful relevance for purposes of comparison with those of the Portfolios because of the significant differences in services provided by Alger Management to those types of clients as opposed to the

Portfolios, but that to the extent that meaningful comparison was practicable, the differences in services adequately explained the differences in the fees. After discussing with representatives of the Adviser and FUSE 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 soft-dollar commissions by Portfolio for the twelve months through June 30, 2011, 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 determined that the Portfolios' overall performance was acceptable.

- 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.

Privacy Policy

FACTS	WHAT DOES ALGER DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal information, which, under Federal law, means personally identifiable information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: • Social Security number • account balances, transaction history and credit information
How?	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Alger chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Alger share?	Can you limit this sharing?
For our everyday business purposes — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	**Yes**	**No**
For our marketing purposes — with service providers we use to offer our products and services to you	**Yes**	**No**
For joint marketing with other financial companies	**No**	**We don't share**
For our affiliates' everyday business purposes—information about your transactions and experiences	**Yes**	**No**
For our affiliates' everyday business purposes—information about your creditworthiness	**No**	**We don't share**
For nonaffiliates to market to you — for all credit card accounts	**No**	**We don't share**
For nonaffiliates to market to you — for accounts and services endorsed by another organization	**No**	**We don't share**
For nonaffiliates to market to you — for accounts other than credit card accounts and Sponsored Accounts, such as insurance, investments, deposit and lending	**No**	**We don't share**

What we do	
How does Alger protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. For more information visit alger.com.
How does Alger collect my personal information?	We collect your personal information, for example, when you: • open an account or perform transactions • seek advice about your investments We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.
Why can't I limit all sharing?	Federal law gives you the right to limit some but not all sharing related to: • sharing for affiliates' everyday business purposes — information about your creditworthiness • affiliates from using your information to market to you • sharing for nonaffiliates to market to you State laws and individual companies may give you additional rights to limit sharing.

Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. • Our affiliates include Fred Alger Management, Inc. and Fred Alger & Company, Incorporated as well as the following funds: The Alger Funds, The Alger Funds II, The Alger Institutional Funds, The Alger Portfolios, and Alger China-U.S. Growth Fund.
Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

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.

THE ALGER PORTFOLIOS

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(800) 992-3862
www.alger.com

Investment Advisor

Fred Alger Management, Inc.
360 Park Avenue South
New York, NY 10010

Distributor

Fred Alger & Company, Incorporated
360 Park Avenue South
New York, NY 10010

Transfer Agent and Dividend Disbursing Agent

Boston Financial Data Services, Inc.
P.O. Box 8480
Boston, MA 02266

This report is submitted for the general information of the shareholders of The Alger Portfolios. It is not authorized for distribution to prospective investors unless accompanied by an effective Prospectus for the Trust, which contains information concerning the Trust's investment policies, fees and expenses as well as other pertinent information.

ALGER

Inspired by Change, Driven by Growth.

Dreyfus Investment Portfolios, MidCap Stock Portfolio

ANNUAL REPORT December 31, 2011

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

A LETTER FROM THE CHAIRMAN AND 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, 2011, through December 31, 2011. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

The generally mild returns produced by the U.S. stock market in 2011 belie the pronounced volatility affecting equities over much of the year. Day-to-day market movements were often tumultuous, driven by macroeconomic developments ranging from catastrophic natural disasters in Japan to an unprecedented downgrade of long-term U.S. debt securities and the resurgence of a sovereign debt crisis in Europe. Still, U.S. corporations achieved record-setting profits, on average, even as market valuations dropped below historical norms. A fundamentals-based investment approach proved relatively ineffective in a market fueled mainly by emotion, causing most active portfolio managers to lag market averages.

We are hopeful that equity investors will adopt a more rational perspective in 2012. Our economic forecast calls for a mild acceleration of the U.S. recovery as the domestic banking system regains strength, credit conditions loosen and housing markets begin a long-awaited convalescence. Of course, we encourage you to talk with your financial adviser to help ensure that your investment objectives are properly aligned with your risk tolerance in pursuing potential market opportunities in 2012.

Thank you for your continued confidence and support.

Sincerely,

Jonathan R. Baum
Chairman and Chief Executive Officer
The Dreyfus Corporation
January 17, 2012

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2011, through December 31, 2011, as provided by Patrick Slattery, Portfolio Manager

Fund and Market Performance Overview

For the 12-month period ended December 31, 2011, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 0.40%, and its Service shares produced a total return of 0.20%.[1] In comparison, the fund's benchmark, the Standard & Poor's MidCap 400 Index (the "S&P 400 Index"), produced a total return of –1.73% for the same period.[2]

A variety of macroeconomic disappointments weighed on equity markets during much of 2011, but rallies in the first and fourth quarters enabled midcap stocks to post only a mild loss. The fund's relatively strong performance compared to its benchmark was driven primarily by strong stock selections in the health care, information technology and materials sectors.

The Fund's Investment Approach

The fund seeks investment results that are greater than the total return performance of publicly traded common stocks of medium-size domestic companies in the aggregate, as represented by the S&P 400 Index. To pursue this goal, the fund normally invests at least 80% of its assets in stocks of midsize companies. The fund invests in growth and value stocks, which are chosen through a disciplined investment process that combines computer modeling techniques, fundamental analysis and risk management. Consistency of returns compared to the S&P 400 Index is a primary goal of the investment process.

Economic Uncertainty Triggered Market Volatility

During the opening months of 2011, broad confidence in U.S. economic growth overcame investors' concerns regarding a series of unsettling global developments, which included unprecedented political unrest in the Middle East, natural and nuclear disasters in Japan and the growing sovereign debt crisis in Europe. By the spring, however, investor confidence came under increasing pressure with European financial instability intensifying, emerging-markets growth slowing and the U.S. economy showing signs of renewed weakness. Negative market trends were exacerbated by the downgrading of long-term U.S. government debt by a major credit-rating agency. Consequently the S&P 400 Index declined sharply over the summer.

By October, market conditions began to show signs of improvement, bolstered by better U.S. economic data, reductions in the unemployment rate and some positive developments in the global economy. While market volatility remained high during the last quarter of the year, U.S. equities regained much of the ground they had lost earlier. However, returns for midcap stocks proved weaker than those of their larger-cap counterparts.

Quality Factors Buoyed the Fund's Performance

For the year as a whole, the quantitative modeling factors at the heart of the fund's stock selection process tended to enhance returns relative to the benchmark. Quality-related factors, such as earnings quality, made the greatest positive contribution to relative performance. Behavioral factors, such as earnings agreement, also played a role in the fund's comparatively good returns, especially during the latter half of the year. Positive results attributable to these two groups of factors significantly outweighed the negative role played by value-related factors.

Individual Stock Selections Produced Positive Returns

Individual investments in the health care sector provided the fund's most robust returns relative to the benchmark. Health plan provider Humana advanced after reporting better-than-expected earnings and issuing its first dividend in eighteen years. Two other holdings, drug developer *Cephalon* and medical device maker *Kinetic Concepts*, received attractive buyout offers at premiums to their stock prices at the time.

Several information technology holdings delivered strong relative returns as well, led by services provider Fair Isaac, a recent addition to the fund's portfolio, which climbed sharply in early November after reporting better-than-expected quarterly earnings and raising guidance for future business prospects. Other top technology holdings included Internet services company IAC/InterActiveCorp, which announced strong financial results, and systems consultant *SRA International*, which was acquired on favorable terms for investors. In the materials sector, specialty chemicals maker NewMarket reported strong earnings and twice increased its dividend payout, driving the stock higher throughout the year.

Of course, not all the fund's holdings generated favorable results. Notable disappointments included vehicle maker *Oshkosh* and technology infrastructure and services provider *Computer Sciences*, both of which were hurt by cutbacks in government spending. Telephone & Data Systems, a diversified telecommunications company, struggled with heavier competition from wireless service providers. Coal producer *Arch Coal* experienced production and delivery problems, and funded its acquisition of a competitor by issuing more stock, thereby diluting the value of existing shareholders' interests.

Finding Opportunities Created by Volatility

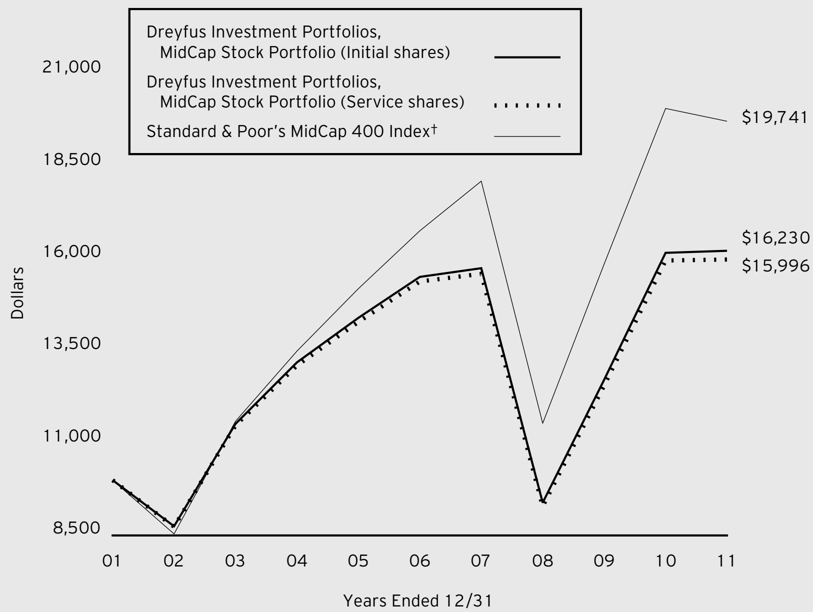
While the high levels of market volatility that prevailed throughout 2011 were unsettling for many investors, we believe that the turbulent environment created opportunities in many sectors of the market. Our quantitative investment approach, with its broad range of modeling factors, is designed to identify such opportunities across market sectors and investment style strategies.

January 17, 2012

Please note, the position in any security highlighted with italicized typeface was sold during the reporting period.
Equity funds are subject generally to market, market sector, market liquidity, issuer and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's prospectus.
Stocks of midcap companies often experience sharper price fluctuations than stocks of large-cap companies.
The fund is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies. Individuals may not purchase shares of the fund directly. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals.

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 MidCap 400 Index is a widely accepted, unmanaged total return index measuring the performance of the midsize-company segment of the U.S. market. Investors cannot invest directly in an index.*



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 12/31/11*

	1 Year	5 Years	10 Years
Initial shares	**0.40%**	**0.90%**	**4.96%**
Service shares	**0.20%**	**0.78%**	**4.81%**
Standard & Poor's MidCap 400 Index	**-1.73%**	**3.32%**	**7.04%**

† *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 Dreyfus Investment Portfolios, MidCap Stock Portfolio on 12/31/01 to a $10,000 investment made in the Standard & Poor's MidCap 400 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. All dividends and capital gain distributions are reinvested.

The fund's performance shown in the line graph above takes into account all applicable fund 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 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), redemption fees and expenses associated with variable annuity or insurance contracts, which are not shown in this section and would have resulted in higher total expenses. For more information, see your fund's prospectus or talk to your financial adviser.

Review your fund's expenses

The table below shows the expenses you would have paid on a $1,000 investment in Dreyfus Investment Portfolios, MidCap Stock Portfolio from July 1, 2011 to December 31, 2011. 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, 2011

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.27	$ 5.47
Ending value (after expenses)	$922.90	$922.10

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, 2011

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.48	$ 5.75
Ending value (after expenses)	$1,020.77	$1,019.51

† *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 184/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

December 31, 2011

Common Stocks—99.2%	Shares		Value ($)
Consumer Discretionary—14.6%			
Aaron's	67,400		1,798,232
American Greetings, Cl. A	35,300	a	441,603
ANN	20,900	b	517,902
Bob Evans Farms	56,400	a	1,891,656
Brinker International	77,750		2,080,590
Cheesecake Factory	47,700	a,b	1,399,995
Chico's FAS	56,100		624,954
Dillard's, Cl. A	14,900	a	668,712
GameStop, Cl. A	32,900	a,b	793,877
ITT Educational Services	26,500	a,b	1,507,585
O'Reilly Automotive	13,500	b	1,079,325
Penn National Gaming	18,100	b	689,067
PetSmart	37,400		1,918,246
RadioShack	46,000	a	446,660
Scholastic	36,400	a	1,090,908
Sotheby's	30,100		858,753
TRW Automotive Holdings	10,000	b	326,000
Tupperware Brands	13,700		766,789
Valassis Communications	16,200	a,b	311,526
Weight Watchers International	16,900	a	929,669
Williams-Sonoma	3,600		138,600
Wynn Resorts	2,100		232,029
			20,512,678
Consumer Staples—5.5%			
Church & Dwight	64,000		2,928,640
Coca-Cola Enterprises	68,200		1,758,196
Constellation Brands, Cl. A	87,300	b	1,804,491
Smithfield Foods	48,300	b	1,172,724
Tootsie Roll Industries	2,100	a	49,707
			7,713,758
Energy—5.9%			
Helix Energy Solutions Group	79,700	b	1,259,260
HollyFrontier	41,000		959,400
Oceaneering International	13,500		622,755
Plains Exploration & Production	46,100	b	1,692,792

Common Stocks (continued)	Shares		Value ($)
Energy (continued)			
Superior Energy Services	47,600	a,b	1,353,744
Tesoro	35,700	b	833,952
Valero Energy	70,400		1,481,920
			8,203,823
Financial—17.4%			
American Financial Group	49,275		1,817,755
Cathay General Bancorp	77,600		1,158,568
Comerica	13,300		343,140
Cousins Properties	28,600	c	183,326
Discover Financial Services	24,200		580,800
Equity One	6,100	c	103,578
Highwoods Properties	19,200	a,c	569,664
Hospitality Properties Trust	64,500	c	1,482,210
Huntington Bancshares	35,900		197,091
KeyCorp	206,000		1,584,140
Liberty Property Trust	34,700	a,c	1,071,536
Lincoln National	17,800		345,676
Macerich	6,247	c	316,098
Mack-Cali Realty	74,300	c	1,983,067
Protective Life	35,500		800,880
Rayonier	59,350	c	2,648,791
Reinsurance Group of America	24,600		1,285,350
SEI Investments	98,400		1,707,240
SL Green Realty	21,000	a,c	1,399,440
StanCorp Financial Group	28,400	a	1,043,700
SVB Financial Group	6,000	b	286,140
Waddell & Reed Financial, Cl. A	49,100		1,216,207
Webster Financial	103,900	a	2,118,521
Weingarten Realty Investors	3,200	c	69,824
Zions Bancorporation	8,900		144,892
			24,457,634
Health Care—12.3%			
Agilent Technologies	29,100	b	1,016,463
AMERIGROUP	9,100	b	537,628
Charles River Laboratories International	30,600	b	836,298
Covance	41,100	b	1,879,092

Common Stocks (continued)	Shares		Value ($)
Health Care (continued)			
Health Net	27,400	b	833,508
Hill-Rom Holdings	50,200		1,691,238
Humana	13,000		1,138,930
IDEXX Laboratories	20,800	a,b	1,600,768
LifePoint Hospitals	11,800	b	438,370
Medicis Pharmaceutical, Cl. A	10,200		339,150
Myriad Genetics	4,300	b	90,042
ResMed	89,400	b	2,270,760
Techne	28,400		1,938,584
Thoratec	33,300	b	1,117,548
United Therapeutics	33,300	b	1,573,425
			17,301,804
Industrial—14.0%			
AGCO	27,000	b	1,160,190
Alaska Air Group	35,000	b	2,628,150
Alliant Techsystems	25,100		1,434,716
Copart	7,572	b	362,623
Corrections Corp. of America	94,100	b	1,916,817
Gardner Denver	28,700		2,211,622
KBR	21,200		590,844
Kennametal	55,600		2,030,512
Korn/Ferry International	12,000	b	204,720
Nordson	40,400		1,663,672
Pitney Bowes	84,100	a	1,559,214
Timken	40,400		1,563,884
URS	46,500	b	1,633,080
WABCO Holdings	15,500	b	672,700
			19,632,744
Information Technology—15.6%			
ACI Worldwide	39,800	a,b	1,139,872
Arrow Electronics	22,300	b	834,243
BMC Software	17,600	b	576,928
CA	86,500		1,748,597
Cadence Design Systems	66,200	b	688,480
Dolby Laboratories, Cl. A	19,200	b	585,792
DST Systems	40,244		1,831,907

Common Stocks (continued)	Shares	Value ($)
Information Technology (continued)		
FactSet Research Systems	9,800 [a]	855,344
Fair Isaac	58,500	2,096,640
Fairchild Semiconductor International	60,800 [b]	732,032
IAC/InterActiveCorp	39,000 [a]	1,661,400
Lender Processing Services	23,600	355,652
LSI	118,400 [b]	704,480
Plantronics	56,800	2,024,352
QLogic	96,100 [b]	1,441,500
Synopsys	62,200 [b]	1,691,840
Tech Data	40,500 [b]	2,001,105
Vishay Intertechnology	102,800 [b]	924,172
		21,894,336
Materials—6.1%		
CF Industries Holdings	3,500	507,430
Domtar	27,200	2,174,912
Kronos Worldwide	30,000	541,200
Minerals Technologies	35,300	1,995,509
NewMarket	9,820 [a]	1,945,440
Sealed Air	50,000	860,500
Steel Dynamics	34,600	454,990
		8,479,981
Telecommunication Services—1.2%		
Telephone & Data Systems	66,200	**1,713,918**
Utilities—6.6%		
Cleco	39,300	1,497,330
Great Plains Energy	113,600	2,474,208
Hawaiian Electric Industries	72,500 [a]	1,919,800
NV Energy	34,700	567,345
Questar	126,600	2,514,276
Wisconsin Energy	6,800	237,728
		9,210,687
Total Common Stocks (cost $135,515,144)		**139,121,363**

Other Investment—.7%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Preferred Plus Money Market Fund (cost $1,024,565)	1,024,565 [d]	**1,024,565**

Investment of Cash Collateral for Securities Loaned—10.8%		
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $15,146,438)	15,146,438 [d]	**15,146,438**
Total Investments (cost $151,686,147)	**110.7%**	**155,292,366**
Liabilities, Less Cash and Receivables	**(10.7%)**	**(15,054,840)**
Net Assets	**100.0%**	**140,237,526**

[a] *Security, or portion thereof, on loan. At December 31, 2011, the value of the fund's securities on loan was $14,673,232 and the value of the collateral held by the fund was $15,146,438.*

[b] *Non-income producing security.*

[c] *Investment in real estate investment trust.*

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Financial	17.4	Utilities	6.6
Information Technology	15.6	Materials	6.1
Consumer Discretionary	14.6	Energy	5.9
Industrial	14.0	Consumer Staples	5.5
Health Care	12.3	Telecommunication Services	1.2
Money Market Investments	11.5		**110.7**

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2011

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $14,673,232)—Note 1(b):		
Unaffiliated issuers	135,515,144	139,121,363
Affiliated issuers	16,171,003	16,171,003
Cash		418,895
Dividends and securities lending income receivable		107,528
Receivable for shares of Beneficial Interest subscribed		25,861
Prepaid expenses		2,133
		155,846,783
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		106,369
Liability for securities on loan—Note 1(b)		15,146,438
Payable for shares of Beneficial Interest redeemed		301,231
Accrued expenses		55,219
		15,609,257
Net Assets ($)		**140,237,526**
Composition of Net Assets ($):		
Paid-in capital		172,548,894
Accumulated undistributed investment income—net		632,663
Accumulated net realized gain (loss) on investments		(36,550,250)
Accumulated net unrealized appreciation (depreciation) on investments		3,606,219
Net Assets ($)		**140,237,526**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	123,187,118	17,050,408
Shares Outstanding	9,358,905	1,297,886
Net Asset Value Per Share ($)	**13.16**	**13.14**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2011

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	1,982,159
Affiliated issuers	816
Income from securities lending–Note 1(b)	45,450
Total Income	**2,028,425**
Expenses:	
Management fee–Note 3(a)	1,177,048
Professional fees	70,437
Prospectus and shareholders' reports	49,359
Distribution fees–Note 3(b)	45,816
Custodian fees–Note 3(b)	18,411
Shareholder servicing costs–Note 3(b)	10,407
Trustees' fees and expenses–Note 3(c)	4,272
Loan commitment fees–Note 2	2,727
Miscellaneous	16,081
Total Expenses	**1,394,558**
Less–reduction in fees due to earnings credits–Note 3(b)	(4)
Net Expenses	**1,394,554**
Investment Income–Net	**633,871**
Realized and Unrealized Gain (Loss) on Investments–Note 4 ($):	
Net realized gain (loss) on investments	21,917,984
Net unrealized appreciation (depreciation) on investments	(21,388,110)
Net Realized and Unrealized Gain (Loss) on Investments	**529,874**
Net Increase in Net Assets Resulting from Operations	**1,163,745**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2011	2010
Operations ($):		
Investment income—net	633,871	793,366
Net realized gain (loss) on investments	21,917,984	17,733,437
Net unrealized appreciation (depreciation) on investments	(21,388,110)	18,149,709
Net Increase (Decrease) in Net Assets Resulting from Operations	**1,163,745**	**36,676,512**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(723,203)	(1,351,353)
Service Shares	(69,975)	(158,748)
Total Dividends	**(793,178)**	**(1,510,101)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	8,855,532	11,148,281
Service Shares	2,487,648	3,623,506
Dividends reinvested:		
Initial Shares	723,203	1,351,353
Service Shares	69,975	158,748
Cost of shares redeemed:		
Initial Shares	(33,901,325)	(28,547,371)
Service Shares	(5,108,937)	(4,212,318)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**(26,873,904)**	**(16,477,801)**
Total Increase (Decrease) in Net Assets	**(26,503,337)**	**18,688,610**
Net Assets ($):		
Beginning of Period	166,740,863	148,052,253
End of Period	**140,237,526**	**166,740,863**
Undistributed investment income—net	632,663	791,970

	Year Ended December 31,	
	2011	2010
Capital Share Transactions:		
Initial Shares		
Shares sold	669,033	968,273
Shares issued for dividends reinvested	50,858	115,896
Shares redeemed	(2,534,215)	(2,528,129)
Net Increase (Decrease) in Shares Outstanding	**(1,814,324)**	**(1,443,960)**
Service Shares		
Shares sold	183,958	305,583
Shares issued for dividends reinvested	4,921	13,603
Shares redeemed	(379,066)	(369,298)
Net Increase (Decrease) in Shares Outstanding	**(190,187)**	**(50,112)**

See notes to financial statements.

FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information (except portfolio turnover rate) reflects financial results for a single fund share. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. The fund's total returns do not reflect expenses associated with variable annuity or insurance contracts. These figures have been derived from the fund's financial statements.

	Year Ended December 31,				
Initial Shares	2011	2010	2009	2008	2007
Per Share Data ($):					
Net asset value, beginning of period	13.17	10.46	7.85	15.52	17.39
Investment Operations:					
Investment income—net [a]	.06	.06	.11	.09	.12
Net realized and unrealized gain (loss) on investments	.00[b]	2.76	2.62	(5.63)	.19
Total from Investment Operations	.06	2.82	2.73	(5.54)	.31
Distributions:					
Dividends from investment income—net	(.07)	(.11)	(.12)	(.12)	(.07)
Dividends from net realized gain on investments	–	–	–	(2.01)	(2.11)
Total Distributions	(.07)	(.11)	(.12)	(2.13)	(2.18)
Net asset value, end of period	13.16	13.17	10.46	7.85	15.52
Total Return (%)	.40	27.10	35.51	(40.42)	1.50
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.86	.84	.84	.82	.80
Ratio of net expenses to average net assets	.86	.84	.84	.81	.80
Ratio of net investment income to average net assets	.43	.54	1.22	.76	.73
Portfolio Turnover Rate	81.48	79.28	75.42	86.74	116.83
Net Assets, end of period ($ x 1,000)	123,187	147,155	131,962	125,701	277,602

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

Service Shares	Year Ended December 31, 2011	2010	2009	2008	2007
Per Share Data ($):					
Net asset value, beginning of period	13.16	10.46	7.82	15.45	17.31
Investment Operations:					
Investment income—net[a]	.02	.05	.10	.08	.09
Net realized and unrealized gain (loss) on investments	.01	2.76	2.63	(5.60)	.21
Total from Investment Operations	.03	2.81	2.73	(5.52)	.30
Distributions:					
Dividends from investment income—net	(.05)	(.11)	(.09)	(.10)	(.05)
Dividends from net realized gain on investments	–	–	–	(2.01)	(2.11)
Total Distributions	(.05)	(.11)	(.09)	(2.11)	(2.16)
Net asset value, end of period	13.14	13.16	10.46	7.82	15.45
Total Return (%)	.20	26.94	35.33	(40.44)	1.39
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.11	1.09	1.09	1.06	1.05
Ratio of net expenses to average net assets	1.11	.97	.90	.90	.90
Ratio of net investment income to average net assets	.18	.40	1.16	.62	.58
Portfolio Turnover Rate	81.48	79.28	75.42	86.74	116.83
Net Assets, end of period ($ x 1,000)	17,050	19,586	16,090	13,881	39,009

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

See notes to financial statements.

NOTE 1—Significant Accounting Policies:

Dreyfus Investment Portfolios (the "Company") 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 "fund"). The fund is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The fund is a diversified series. The fund's investment objective is to seek investment results that are greater than the total return performance of publicly traded common stocks of medium-size domestic companies in the aggregate, as represented by the Standard & Poor's MidCap 400 Index. The Dreyfus Corporation (the "Manager" or "Dreyfus"), a wholly-owned subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), serves as the fund's investment adviser.

MBSC Securities Corporation (the "Distributor"), a wholly-owned subsidiary of the Manager, is the distributor of the fund's shares, which are sold without a sales charge. The fund is authorized to issue an unlimited number of $.001 par value shares of Beneficial Interest in each of the following classes of shares: Initial and Service. Each class of shares has identical rights and privileges, except with respect to the distribution plan, the expenses borne by each class, the allocation of certain transfer agency costs and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The Company accounts separately for the assets, liabilities and operations of each series. Expenses directly attributable to each series are charged to that series' operations; expenses which are applicable to all series are allocated among them on a pro rata basis.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the exclusive reference of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund's financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

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

(a) Portfolio valuation: The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

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

Level 1—unadjusted quoted prices in active markets for identical investments.

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

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

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

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price that day, at the last sales price. 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. All preceding securities are categorized within Level 1 of the fair value hierarchy.

Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant American Depository Receipts and futures contracts. Utilizing these techniques may result in transfers between Level 1 and Level 2 of the fair value hierarchy.

When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board of Trustees. Certain factors may be considered when fair valuing investments such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold, and public trading in similar securities of the issuer or comparable issuers. These securities are either categorized as Level 2 or 3 depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of December 31, 2011 in valuing the fund's investments:

	Level 1– Unadjusted Quoted Prices	Level 2–Other Significant Observable Inputs	Level 3– Significant Unobservable Inputs	Total
Assets ($)				
Investments in Securities:				
Equity Securities– Domestic†	139,121,363	–	–	**139,121,363**
Mutual Funds	16,171,003	–	–	**16,171,003**

† *See Statement of Investments for additional detailed categorizations.*

In May 2011, FASB issued Accounting Standards Update ("ASU") No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards ("IFRS")" ("ASU 2011-04"). ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU 2011-04 and its impact on the financial statements.

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

Pursuant to a securities lending agreement with The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, the fund may lend securities to qualified institutions. It is the fund's policy that, at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan is maintained at all times. Collateral is either in the form of cash, which can be invested in certain money market mutual funds managed by 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, 2011, The Bank of New York Mellon earned $19,478 from lending portfolio securities, pursuant to the securities lending agreement.

(c) Affiliated issuers: Investments in other investment companies advised by Dreyfus are defined as "affiliated" in the Act.

The fund may invest in shares of certain affiliated investment companies also advised or managed by Dreyfus. Investments in affiliated investment companies for the period ended December 31, 2011 were as follows:

Affiliated Investment Company	Value 12/31/2010 ($)	Purchases ($)	Sales ($)	Value 12/31/2011 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	912,000	25,360,907	25,248,342	1,024,565	.7
Dreyfus Institutional Cash Advantage Fund	2,072,631	207,026,915	193,953,108	15,146,438	10.8
Total	**2,984,631**	**232,387,822**	**219,201,450**	**16,171,003**	**11.5**

(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 GAAP.

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

As of and during the period ended December 31, 2011, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period, the fund did not incur any interest or penalties.

Each of the tax years in the four-year period ended December 31, 2011 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2011, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $632,663, accumulated capital losses $35,442,133 and unrealized appreciation $3,563,425. In addition, the fund had $1,065,323 of capital losses realized after October 31, 2011, which were deferred for tax purposes to the first day of the following fiscal year.

Under the Regulated Investment Company Modernization Act of 2010 (the "2010 Act"), the fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 ("post-enactment losses") for an unlimited period. Post-enactment capital loss carryovers will retain their character as either short-term or long-term capital losses rather than be considered short-term as they were under previous statute. However, the 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act ("pre-enactment losses"). As a result of this ordering rule, pre-enactment losses may be more likely to expire unused.

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, 2011. If not applied, the carryover expires in fiscal 2017.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2011 and December 31, 2010 were as follows: ordinary income $793,178 and $1,510,101, respectively.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $225 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing. During the period ended December 31, 2011, the fund did not borrow under the Facilities.

NOTE 3—Management Fee and Other Transactions With Affiliates:

(a) Pursuant to a management agreement with the Manager, the management fee is computed at the annual rate of .75% of the value of the fund's average daily net assets and is payable monthly.

(b) Under the Distribution Plan (the "Plan") adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing its shares, for servicing and/or maintaining Service shares' shareholder accounts and for advertising and marketing for Service shares. The 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, 2011, Service shares were charged $45,816 pursuant to the 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, 2011, the fund was charged $922 pursuant to the transfer agency agreement, which is included in Shareholder servicing costs in the Statement of Operations.

The fund has arrangements with the custodian and cash management bank 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.

The fund compensates The Bank of New York Mellon under cash management agreements for performing cash management services related to fund subscriptions and redemptions. During the period ended December 31, 2011, the fund was charged $116 pursuant to the cash management agreements, which is included in Shareholder servicing costs in the Statement of Operations. These fees were partially offset by earnings credits of $4.

The fund also compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. During the period ended December 31, 2011, the fund was charged $18,411 pursuant to the custody agreement.

During the period ended December 31, 2011, the fund was charged $6,402 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: management fees $89,116, Rule 12b-1 distribution plan fees $3,513, custodian fees $8,255, chief compliance officer fees $5,295 and transfer agency per account fees $190.

(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, 2011, amounted to $128,498,485 and $155,801,597, respectively.

At December 31, 2010, the cost of investments for federal income tax purposes was $151,728,941; accordingly, accumulated net unrealized appreciation on investments was $3,563,425, consisting of $13,282,263 gross unrealized appreciation and $9,718,838 gross unrealized depreciation.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Dreyfus Investment Portfolios, MidCap Stock Portfolio (one of the series comprising Dreyfus Investment Portfolios) as of December 31, 2011, 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, 2011 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, 2011, 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, 2012

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, 2011 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2012 of the percentage applicable to the preparation of their 2011 income tax returns.

INFORMATION ABOUT THE RENEWAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited)

At a meeting of the fund's Board of Trustees held on July 13 and 14, 2011, the Board considered the renewal of the fund's Management Agreement pursuant to which Dreyfus provides the fund with investment advisory and administrative services (the "Agreement"). 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 Dreyfus. In considering the renewal of the Agreement, the Board considered all factors that it believed to be relevant, including those discussed below. The Board did not identify any one factor as dispositive, and each Board member may have attributed different weights to the factors considered.

Analysis of Nature, Extent, and Quality of Services Provided to the Fund. The Board members considered information previously provided to them in presentations from representatives of Dreyfus regarding the nature, extent, and quality of the services provided to funds in the Dreyfus fund complex, and representatives of Dreyfus confirmed that there had been no material changes in this information. Dreyfus provided the number of open accounts in the fund, the fund's asset size and the allocation of fund assets among distribution channels. Dreyfus also had previously provided information regarding the diverse intermediary relationships and distribution channels of funds in the Dreyfus fund complex and Dreyfus' corresponding need for broad, deep, and diverse resources to be able to provide ongoing shareholder services to each distribution channel, including the distribution channel(s) for the fund.

The Board members also considered research support available to, and portfolio management capabilities of, the fund's portfolio management personnel and that Dreyfus also provides oversight of day-to-day fund operations, including fund accounting and administration and assistance in meeting legal and regulatory requirements. The Board members also considered Dreyfus' extensive administrative, accounting, and compliance infrastructures. The Board also considered portfolio management's brokerage policies and practices (including policies and practices regarding soft dollars) and the standards applied in seeking best execution.

Comparative Analysis of the Fund's Performance and Management Fee and Expense Ratio. The Board members reviewed reports prepared by Lipper, Inc. ("Lipper"), an independent provider of investment company data, which included information comparing (1) the fund's performance with the performance of a group of comparable funds (the "Performance Group") and with a broader group of funds (the "Performance Universe"), all for various periods ended May 31, 2011, and (2) the fund's actual and contractual management fees and total expenses with those of a group of comparable funds (the "Expense Group") and with a broader group of funds (the "Expense Universe"), the information for which was derived in part from fund financial statements available to Lipper as of December 31, 2010. Dreyfus previously had furnished the Board with a description of the methodology Lipper used to select the Performance Group and Performance Universe and the Expense Group and Expense Universe.

Dreyfus representatives stated that the usefulness of performance comparisons may be affected by a number of factors, including different investment limitations that may be applicable to the fund and comparison funds. The Board members discussed the results of the comparisons and noted that the fund's total return performance was variously above, at and below the Performance Group and Performance Universe medians. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of the fund's benchmark index.

The Board members also reviewed the range of actual and contractual management fees and total expenses of the Expense Group and Expense Universe funds and discussed the results of the comparisons. They noted that the fund's contractual management fee was at the Expense Group median, the fund's actual management fee was at the Expense Group median and above the Expense Universe median and the fund's total expenses were at the Expense Group median and below the Expense Universe median.

Representatives of Dreyfus reviewed with the Board members the management or investment advisory fees (1) paid by funds advised or administered by Dreyfus that are in the same Lipper category as the fund and (2) paid to Dreyfus or the Dreyfus-affiliated primary employer of the fund's primary portfolio manager for advising any separate accounts and/or other types of client portfolios that are considered to have similar investment strategies and policies as the fund (the "Similar Clients"), and explained the nature of the Similar Clients. They discussed differences in fees paid and the relationship of the fees paid in light of any differences in the services provided and other relevant factors. The Board members considered the relevance of the fee information provided for the Similar Clients to evaluate the appropriateness and reasonableness of the fund's management fee.

Analysis of Profitability and Economies of Scale. Dreyfus' representatives reviewed the expenses allocated and profit received by Dreyfus and the resulting profitability percentage for managing the fund, and the method used to determine the expenses and profit. The Board concluded that the profitability results were not unreasonable, given the services rendered and service levels provided by Dreyfus. The Board previously had been provided with information prepared by an independent consulting firm regarding Dreyfus' approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus fund complex. The consulting firm also had analyzed where any economies of scale might emerge in connection with the management of a fund.

The Board's counsel stated that the Board members should consider the profitability analysis (1) as part of their evaluation of whether the fees under the Agreement bear a reasonable relationship to the mix of services provided by Dreyfus, including the nature, extent and quality of such services, and (2) in light of the relevant circumstances for the fund 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. They also noted that, as a result of shared and allocated costs among funds in the Dreyfus fund complex, the extent of economies of scale could depend substantially on the level of assets in the complex as a whole, so that increases and decreases in complex-wide assets can affect potential economies of scale in a manner that is disproportionate to, or even in the opposite direction from, changes in the fund's asset level. The Board members also considered potential benefits to Dreyfus from acting as investment adviser and noted the soft dollar arrangements in effect for trading the fund's investments.

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 the renewal of the Agreement. Based on the discussions and considerations as described above, the Board concluded and determined as follows.

- The Board concluded that the nature, extent and quality of the services provided by Dreyfus are adequate and appropriate.
- The Board generally was satisfied with the fund's improved performance.
- The Board concluded that the fee paid to Dreyfus was reasonable in light of the considerations described above.
- The Board determined that the economies of scale which may accrue to Dreyfus and its affiliates in connection with the management of the fund had been adequately considered by Dreyfus in connection with the fee rate charged to the fund pursuant to the Agreement 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 information received on a routine and regular basis throughout the year. In addition, it should be noted that the Board's consideration of the contractual fee arrangements for this fund had the benefit of a number of years of reviews of prior or similar agreements during which lengthy discussions took place between the Board members and Dreyfus representatives. Certain aspects of the arrangements may receive greater scrutiny in some years than in others, and the Board members' conclusions may be based, in part, on their consideration of the same or similar arrangements in prior years. The Board members determined that renewal of the Agreement was in the best interests of the fund and its shareholders.

BOARD MEMBERS INFORMATION (Unaudited)

Joseph S. DiMartino (68)
Chairman of the Board (1998)

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

Other Public Company Board Memberships During Past 5 Years:
- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (1997-present)
- Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director (2005-2009)
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director (2000-2010)

No. of Portfolios for which Board Member Serves: 164

Clifford L. Alexander, Jr. (78)
Board Member (1998)

Principal Occupation During Past 5 Years:
- President of Alexander & Associates, Inc., a management consulting firm (January 1981-present)

No. of Portfolios for which Board Member Serves: 45

David W. Burke (75)
Board Member (2003)

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

No. of Portfolios for which Board Member Serves: 81

Whitney I. Gerard (77)
Board Member (2003)

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

No. of Portfolios for which Board Member Serves: 25

Nathan Leventhal (68)
Board Member (2009)

Principal Occupation During Past 5 Years:
• Commissioner, NYC Planning Commission (March 2007-present)
• Chairman of the Avery-Fisher Artist Program (November 1997-present)

Other Public Company Board Memberships During Past 5 Years:
• Movado Group, Inc., Director

No. of Portfolios for which Board Member Serves: 43

George L. Perry (77)
Board Member (2003)

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

No. of Portfolios for which Board Member Serves: 25

Benaree Pratt Wiley (65)
Board Member (2009)

Principal Occupation During Past 5 Years:
• Principal, The Wiley Group, a firm specializing in strategy and business development (2005-present)

Other Public Company Board Memberships During Past 5 Years:
• CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (2008-present)

No. of Portfolios for which Board Member Serves: 66

Once elected all Board Members serve for an indefinite ternm, 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-DREYFUS.

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

OFFICERS OF THE FUND (Unaudited)

BRADLEY J. SKAPYAK, President since January 2010.

Chief Operating Officer and a director of the Manager since June 2009. From April 2003 to June 2009, Mr. Skapyak was the head of the Investment Accounting and Support Department of the Manager. He is an officer of 75 investment companies (comprised of 163 portfolios) managed by the Manager. He is 53 years old and has been an employee of the Manager since February 1988.

JANETTE E. FARRAGHER, Vice President and Secretary since December 2011.

Assistant General Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 49 years old and has been an employee of the Manager since February 1984.

KIESHA ASTWOOD, Vice President and Assistant Secretary since January 2010.

Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 38 years old and has been an employee of the Manager since July 1995.

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

Senior Counsel of BNY Mellon and Secretary of the Manager, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 45 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 56 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 50 years old and has been an employee of the Manager since June 2000.

KATHLEEN DENICHOLAS, Vice President and Assistant Secretary since January 2010.

Managing Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 37 years old and has been an employee of the Manager since February 2001.

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

Senior Managing Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since February 1991.

M. CRISTINA MEISER, Vice President and Assistant Secretary since January 2010.

Senior Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 41 years old and has been an employee of the Manager since August 2001.

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

Managing Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 59 years old and has been an employee of the Manager since May 1986.

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

Senior Managing Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 46 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 53 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 52 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 43 years old and has been an employee of the Manager since April 1991.

ROBERT S. ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager – Fixed Income Funds of the Manager, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 47 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 44 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 44 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 (76 investment companies, comprised of 189 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 54 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.

STEPHEN J. STOREN, Anti-Money Laundering Compliance Officer since May 2011.

Chief Compliance Officer of the Distributor, and the Anti-Money Laundering Compliance Officer of 72 investment companies (comprised of 185 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Distributor since October 1999.

For More Information

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

Manager

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Custodian

The Bank of New York Mellon
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 1-516-338-3300

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 most recent 12-month period ended June 30 is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-DREYFUS.

0174AR1211

The Dreyfus Socially Responsible Growth Fund, Inc.

ANNUAL REPORT December 31, 2011

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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A LETTER FROM THE CHAIRMAN AND 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, 2011, through December 31, 2011. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

The generally mild returns produced by the U.S. stock market in 2011 belie the pronounced volatility affecting equities over much of the year. Day-to-day market movements were often tumultuous, driven by macroeconomic developments ranging from catastrophic natural disasters in Japan to an unprecedented downgrade of long-term U.S. debt securities and the resurgence of a sovereign debt crisis in Europe. Still, U.S. corporations achieved record-setting profits, on average, even as market valuations dropped below historical norms. A fundamentals-based investment approach proved relatively ineffective in a market fueled mainly by emotion, causing most active portfolio managers to lag market averages.

We are hopeful that equity investors will adopt a more rational perspective in 2012. Our economic forecast calls for a mild acceleration of the U.S. recovery as the domestic banking system regains strength, credit conditions loosen and housing markets begin a long-awaited convalescence. Of course, we encourage you to talk with your financial adviser to help ensure that your investment objectives are properly aligned with your risk tolerance in pursuing potential market opportunities in 2012.

Thank you for your continued confidence and support.

Sincerely,

Jonathan R. Baum
Chairman and Chief Executive Officer
The Dreyfus Corporation
January 17, 2012

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2011, through December 31, 2011, as provided by Jocelin A. Reed, CFA, Portfolio Manager

Market and Fund Performance Overview

For the 12-month period ended December 31, 2011, The Dreyfus Socially Responsible Growth Fund's Initial shares produced a total return of 0.90%, and the fund's Service shares returned 0.65%.[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 2.09% for the same period.[2]

Several macroeconomic disappointments weighed on equities during 2011, limiting the S&P 500 Index's return. The fund produced lower returns than its benchmark, primarily due to lack of exposure to large integrated energy companies.

The Fund's Investment Approach

The fund seeks capital growth, with current income as a secondary objective. To pursue these goals, the fund invests at least 80% of its assets 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 use quantitative research to identify and rank stocks within an industry or sector. Next, using fundamental analysis, we designate the most attractive of the higher ranked securities as potential purchase candidates. We then evaluate whether each company meets the fund's socially responsible investment criteria in order to determine whether the company is eligible for purchase or retention by the fund. With respect to those eligible securities, we then select investments that we consider to be the most attractive based on financial considerations.

The fund normally focuses on large-cap growth stocks; however, the fund also may invest in value-oriented stocks, midcap stocks and small-cap stocks.

Global Economic Developments Roiled Equity Markets

Improvements in U.S. economic data supported stock prices at the start of 2011, but political unrest in the Middle East and natural disasters in

Japan soon interrupted the rally. Nonetheless, investors looked forward to better business conditions, and stocks rebounded by the end of the first quarter.

Hopes for a more robust recovery were dashed in late April, when a sovereign debt crisis spread from Greece to other European nations. In addition, U.S. economic data proved disappointing, and investors reacted cautiously to a contentious debate regarding U.S. government spending and borrowing. Market declines were particularly severe in August and September, after a major credit-rating agency downgraded its assessment of long-term U.S. government debt. The market rebounded from October through December when U.S. economic data improved, enabling the S&P 500 Index to end the year in positive territory.

Stock Selections Produced Mixed Results

Disappointments during the reporting period were concentrated primarily in the energy sector, where the fund did not participate in the relative strength of integrated oil producers that failed to meet our socially responsible criteria. In addition, a supply glut of natural gas weighed on Nexen, *Forest Oil* and Devon Energy. In the industrials sector, lack of exposure to aerospace companies hurt relative returns, as did companies doing substantial business in the emerging markets, such as Emerson Electric and United Technologies. Meanwhile, construction engineering firm Fluor lost value due to government cutbacks on domestic infrastructure projects. Results from the materials sector were constrained by global economic worries affecting metals producers Alcoa and *Schnitzer Steel*.

The fund achieved better results in the financials sector. Relatively light holdings of diversified financial institutions helped cushion weakness affecting big banks. Instead, we established positions in non-bank financials, such as securities exchange NASDAQ OMX Group, which advanced amid higher trading volumes, and insurer Aflac, which reported growth in overseas markets. Discover Financial Services held up well due to low exposure to subprime loans and wider acceptance of its credit card.

Among health care companies, favorable stock selections included Humana and *Aetna*, which encountered rising enrollment trends in government-sponsored insurance programs. Overweighted exposure to biotechnology firms also buoyed returns. In the consumer discretionary sector, auto parts seller O'Reilly Automotive saw business improve as consumers delayed purchases of new vehicles, and discount retailer *TJX* proved adept at managing inventories and appealing to cost-conscious consumers.

Finding Sustainable Opportunities in a Slow Growth Economy

Recent improvements in economic data have been encouraging, but selectivity is likely to remain key to investment success. The fund ended the year with overweighted exposure to high-quality, growth-oriented technology companies that appear poised to benefit from emerging technological trends. Conversely, we have maintained underweighted exposure to energy companies.

Why Invest in Mining Companies?

We sometimes are asked why the fund invests in mining companies that historically have been large energy consumers. As a socially responsible fund, we believe it is good policy to reward companies for moving in the right direction toward sustainability. The fund's mining holdings have made substantial progress toward reducing energy consumption, and we have continued to avoid those companies with less appealing track records in this area.

January 17, 2012

Please note, the position in any security highlighted with italicized typeface was sold during the reporting period.

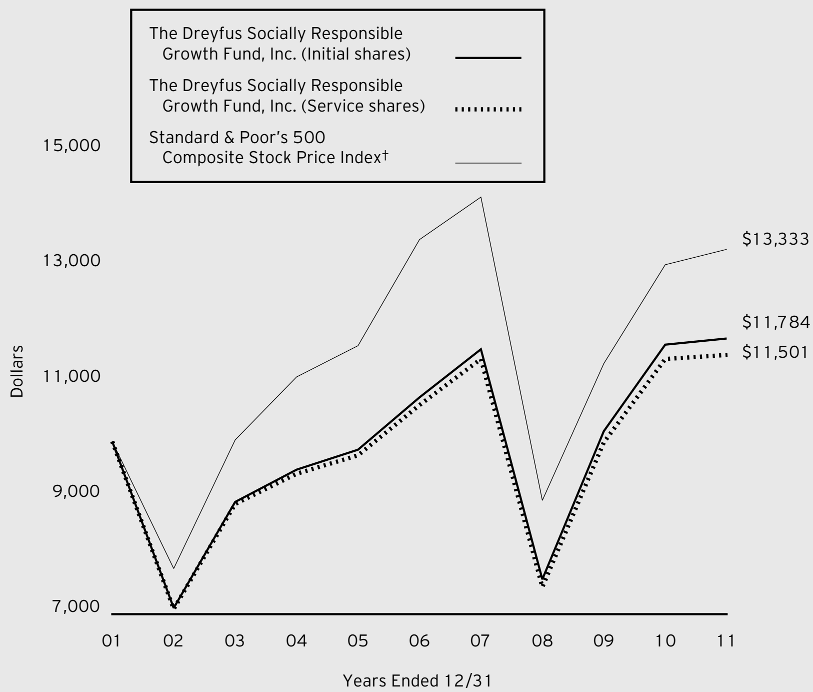
Equity funds are subject generally to market, market sector, market liquidity, issuer and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's prospectus.

The fund's socially responsible investment criteria may limit the number of investment opportunities available to the fund, and as a result, at times, the fund may produce more modest gains than funds that are not subject to such special investment considerations.

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.

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. Investors cannot invest directly in any index.*



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 12/31/11*

	1 Year	5 Years	10 Years
Initial shares	**0.90%**	**1.84%**	**1.66%**
Service shares	**0.65%**	**1.59%**	**1.41%**
Standard & Poor's 500 Composite Stock Price Index	**2.09%**	**-0.25%**	**2.92%**

† *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 12/31/01 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. All dividends and capital gain distributions are reinvested.

The fund's performance shown in the line graph above 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), redemption fees and expenses associated with variable annuity or insurance contracts, which are not shown in this section and would have resulted in higher total expenses. For more information, see your fund's prospectus or talk to your financial adviser.

Review your fund's expenses

The table below shows the expenses you would have paid on a $1,000 investment in The Dreyfus Socially Responsible Growth Fund, Inc. from July 1, 2011 to December 31, 2011. 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, 2011

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.22	$ 5.44
Ending value (after expenses)	$945.60	$944.70

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, 2011

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.38	$ 5.65
Ending value (after expenses)	$1,020.87	$1,019.61

† *Expenses are equal to the fund's annualized expense ratio of .86% for Initial Shares and 1.11% for Service Shares, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

December 31, 2011

Common Stocks—99.3%	Shares		Value ($)
Consumer Discretionary—8.7%			
Best Buy	65,100		1,521,387
Discovery Communications, Cl. A	84,600	a	3,466,062
Kohl's	68,200		3,365,670
Marriott International, Cl. A	88,200		2,572,794
Marriott Vacations Worldwide	8,820	a,b	151,351
Nordstrom	49,400		2,455,674
O'Reilly Automotive	19,200	a	1,535,040
Staples	148,100		2,057,109
Weight Watchers International	27,275	b	1,500,398
			18,625,485
Consumer Staples—10.6%			
Campbell Soup	66,200	b	2,200,488
Clorox	48,300		3,214,848
Coca-Cola Enterprises	84,100		2,168,098
Costco Wholesale	56,300		4,690,916
Estee Lauder, Cl. A	14,900		1,673,568
Hormel Foods	109,500		3,207,255
Procter & Gamble	23,825		1,589,366
Whole Foods Market	55,450		3,858,211
			22,602,750
Energy—7.7%			
Denbury Resources	199,300	a	3,009,430
Devon Energy	47,850		2,966,700
EnCana	90,100		1,669,553
ION Geophysical	315,500	a	1,934,015
Lone Pine Resources	205,054		1,437,428
Nexen	141,725		2,254,845
Noble Energy	28,200		2,661,798
Venoco	77,523	a	524,831
			16,458,600
Financial—10.7%			
Aflac	62,600		2,708,076
Comerica	133,900		3,454,620
Discover Financial Services	91,100		2,186,400
First Horizon National	172,120		1,376,960

Common Stocks (continued)	Shares		Value ($)
Financial (continued)			
KeyCorp	528,100		4,061,089
NASDAQ OMX Group	74,200	[a]	1,818,642
Northern Trust	59,800		2,371,668
People's United Financial	86,100		1,106,385
PNC Financial Services Group	44,150		2,546,130
Waddell & Reed Financial, Cl. A	50,450		1,249,646
			22,879,616
Health Care—14.0%			
Agilent Technologies	61,600	[a]	2,151,688
Amgen	30,875		1,982,484
AstraZeneca, ADR	41,050	[b]	1,900,204
Becton Dickinson & Co.	30,275		2,262,148
Biogen Idec	20,900	[a]	2,300,045
Bristol-Myers Squibb	135,100		4,760,924
CareFusion	48,400	[a]	1,229,844
DaVita	41,000	[a]	3,108,210
Gilead Sciences	58,550	[a]	2,396,451
Humana	40,900		3,583,249
Life Technologies	79,000	[a]	3,073,890
Novartis, ADR	22,400		1,280,608
			30,029,745
Industrial—10.0%			
3M	26,200		2,141,326
Brink's	40,250		1,081,920
Caterpillar	34,100		3,089,460
Cummins	28,500		2,508,570
Donaldson	13,825	[b]	941,206
Eaton	45,600		1,984,968
Emerson Electric	37,525		1,748,290
Fluor	21,800		1,095,450
General Electric	152,700		2,734,857
Pitney Bowes	107,000	[b]	1,983,780
United Technologies	29,175		2,132,401
			21,442,228
Information Technology—25.7%			
Accenture, Cl. A	19,800		1,053,954

Common Stocks (continued)	Shares		Value ($)
Information Technology (continued)			
Advanced Micro Devices	193,600	a	1,045,440
Apple	13,650	a	5,528,250
Applied Materials	189,400		2,028,474
Avnet	43,975	a	1,367,183
CA	73,250		1,480,749
Cisco Systems	206,275		3,729,452
Dell	248,900	a	3,641,407
EMC	115,625	a	2,490,563
Intel	166,050		4,026,713
International Business Machines	40,775		7,497,707
Intuit	29,800		1,567,182
Microsoft	311,900		8,096,924
Motorola Solutions	34,000		1,573,860
Oracle	104,475		2,679,784
QUALCOMM	19,925		1,089,897
Symantec	139,050	a	2,176,132
VistaPrint	76,500	a,b	2,340,900
Western Union	88,425	b	1,614,640
			55,029,211
Materials—5.2%			
Alcoa	283,100		2,448,815
Ball	73,500		2,624,685
Domtar	28,300		2,262,868
Ecolab	41,200		2,381,772
Sigma-Aldrich	24,000		1,499,040
			11,217,180
Telecommunications—2.8%			
Verizon Communications	151,900		**6,094,228**
Utilities—3.9%			
Consolidated Edison	35,100		2,177,253
NSTAR	47,300		2,221,208
Sempra Energy	28,350		1,559,250
Xcel Energy	83,500		2,307,940
			8,265,651
Total Common Stocks (cost $200,932,174)			**212,644,694**

Other Investment–.7%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Preferred Plus Money Market Fund (cost $1,532,244)	1,532,244 [c]	**1,532,244**
Investment of Cash Collateral for Securities Loaned–4.1%		
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $8,730,754)	8,730,754 [c]	**8,730,754**
Total Investments (cost $211,195,172)	**104.1%**	**222,907,692**
Liabilities, Less Cash and Receivables	**(4.1%)**	**(8,727,171)**
Net Assets	**100.0%**	**214,180,521**

ADR—American Depository Receipts

[a] *Non-income producing security.*

[b] *Security, or portion thereof, on loan. At December 31, 2011, the value of the fund's securities on loan was $8,457,668 and the value of the collateral held by the fund was $8,730,754.*

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Information Technology	25.7	Energy	7.7
Health Care	14.0	Materials	5.2
Financial	10.7	Money Market Investments	4.8
Consumer Staples	10.6	Utilities	3.9
Industrial	10.0	Telecommunications	2.8
Consumer Discretionary	8.7		**104.1**

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2011

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $8,457,668)—Note 1(b):		
Unaffiliated issuers	200,932,174	212,644,694
Affiliated issuers	10,262,998	10,262,998
Cash		41,927
Dividends and securities lending income receivable		250,034
Receivable for shares of Common Stock subscribed		8,293
Prepaid expenses		10,363
		223,218,309
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		153,198
Liability for securities on loan—Note 1(b)		8,730,754
Payable for shares of Common Stock redeemed		94,250
Accrued expenses		59,586
		9,037,788
Net Assets ($)		**214,180,521**
Composition of Net Assets ($):		
Paid-in capital		211,582,321
Accumulated undistributed investment income—net		1,808,402
Accumulated net realized gain (loss) on investments		(10,922,722)
Accumulated net unrealized appreciation (depreciation) on investments		11,712,520
Net Assets ($)		**214,180,521**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	208,013,113	6,167,408
Shares Outstanding	6,955,222	207,622
Net Asset Value Per Share ($)	**29.91**	**29.70**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2011

Investment Income ($):	
Income:	
Cash dividends (net of $19,792 foreign taxes withheld at source):	
Unaffiliated issuers	3,721,791
Affiliated issuers	1,612
Income from securities lending—Note 1(b)	37,499
Total Income	**3,760,902**
Expenses:	
Management fee—Note 3(a)	1,705,952
Professional fees	86,095
Prospectus and shareholders' reports	68,397
Shareholder servicing costs—Note 3(c)	27,057
Custodian fees—Note 3(c)	16,250
Distribution fees—Note 3(b)	16,152
Directors' fees and expenses—Note 3(d)	7,208
Loan commitment fees—Note 2	2,768
Miscellaneous	21,898
Total Expenses	**1,951,777**
Less—reduction in fees due to earnings credits—Note 3(c)	(6)
Net Expenses	**1,951,771**
Investment Income—Net	**1,809,131**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	25,953,466
Net unrealized appreciation (depreciation) on investments	(25,448,830)
Net Realized and Unrealized Gain (Loss) on Investments	**504,636**
Net Increase in Net Assets Resulting from Operations	**2,313,767**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2011	2010
Operations ($):		
Investment income—net	1,809,131	2,035,275
Net realized gain (loss) on investments	25,953,466	9,806,504
Net unrealized appreciation (depreciation) on investments	(25,448,830)	18,869,439
Net Increase (Decrease) in Net Assets Resulting from Operations	**2,313,767**	**30,711,218**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,991,777)	(1,883,935)
Service Shares	(43,526)	(39,024)
Total Dividends	**(2,035,303)**	**(1,922,959)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	11,511,549	7,813,132
Service Shares	769,413	926,055
Dividends reinvested:		
Initial Shares	1,991,777	1,883,935
Service Shares	43,526	39,024
Cost of shares redeemed:		
Initial Shares	(33,671,498)	(32,411,083)
Service Shares	(1,130,073)	(1,322,352)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**(20,485,306)**	**(23,071,289)**
Total Increase (Decrease) in Net Assets	**(20,206,842)**	**5,716,970**
Net Assets ($):		
Beginning of Period	234,387,363	228,670,393
End of Period	**214,180,521**	**234,387,363**
Undistributed investment income—net	1,808,402	2,034,574

	Year Ended December 31,	
	2011	2010
Capital Share Transactions:		
Initial Shares		
Shares sold	379,277	291,119
Shares issued for dividends reinvested	64,396	69,518
Shares redeemed	(1,109,212)	(1,215,789)
Net Increase (Decrease) in Shares Outstanding	**(665,539)**	**(855,152)**
Service Shares		
Shares sold	25,572	35,315
Shares issued for dividends reinvested	1,415	1,447
Shares redeemed	(37,964)	(50,731)
Net Increase (Decrease) in Shares Outstanding	**(10,977)**	**(13,969)**

See notes to financial statements.

FINANCIAL HIGHLIGHTS

The following tables describe the performance for each share class for the fiscal periods indicated. All information (except portfolio turnover rate) reflects financial results for a single fund share. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. The fund's total returns do not reflect expenses associated with variable annuity or insurance contracts. These figures have been derived from the fund's financial statements.

	Year Ended December 31,				
Initial Shares	2011	2010	2009	2008	2007
Per Share Data ($):					
Net asset value, beginning of period	29.90	26.26	19.86	30.50	28.45
Investment Operations:					
Investment income—net[a]	.24	.25	.21	.19	.17
Net realized and unrealized gain (loss) on investments	.04	3.62	6.40	(10.64)	2.04
Total from Investment Operations	.28	3.87	6.61	(10.45)	2.21
Distributions:					
Dividends from investment income—net	(.27)	(.23)	(.21)	(.19)	(.16)
Net asset value, end of period	29.91	29.90	26.26	19.86	30.50
Total Return (%)	.90	14.82	33.75	(34.42)	7.78
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.85	.89	.89	.85	.82
Ratio of net expenses to average net assets	.85	.89	.89	.85	.82
Ratio of net investment income to average net assets	.80	.93	.97	.72	.58
Portfolio Turnover Rate	67.88	32.75	34.00	31.74	22.71
Net Assets, end of period ($ x 1,000)	208,013	227,893	222,600	184,813	331,313

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

See notes to financial statements.

Service Shares	Year Ended December 31, 2011	2010	2009	2008	2007
Per Share Data ($):					
Net asset value, beginning of period	29.71	26.10	19.71	30.25	28.21
Investment Operations:					
Investment income—net [a]	.17	.18	.16	.12	.10
Net realized and unrealized gain (loss) on investments	.02	3.60	6.37	(10.55)	2.02
Total from Investment Operations	.19	3.78	6.53	(10.43)	2.12
Distributions:					
Dividends from investment income—net	(.20)	(.17)	(.14)	(.11)	(.08)
Net asset value, end of period	29.70	29.71	26.10	19.71	30.25
Total Return (%)	.65	14.54	33.44	(34.58)	7.49
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.10	1.14	1.14	1.10	1.07
Ratio of net expenses to average net assets	1.10	1.14	1.14	1.10	1.07
Ratio of net investment income to average net assets	.55	.68	.72	.47	.33
Portfolio Turnover Rate	67.88	32.75	34.00	31.74	22.71
Net Assets, end of period ($ x 1,000)	6,167	6,494	6,070	5,008	8,924

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

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 seeks to provide capital growth. 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.

MBSC Securities Corporation (the "Distributor"), a wholly-owned subsidiary of the Manager, is the distributor of the fund's shares, which are sold without a sales charge. The fund is authorized to issue 300 million shares of $.001 par value Common Stock. The fund currently offers two 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 distribution plan, shareholder services plan and the expenses borne by each class, the allocation of certain transfer agency costs and certain voting rights. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets.

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the exclusive reference of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund's financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

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

(a) Portfolio valuation: The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

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

Level 1—unadjusted quoted prices in active markets for identical investments.

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

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

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

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

Investments in securities are valued at the last sales price on the securities exchange or national securities market on which such securities are primarily traded. Securities listed on the National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price that day, at the last sales price. 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. All preceding securities are categorized within Level 1 of the fair value hierarchy.

Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant ADRs and futures contracts. Utilizing these techniques may result in transfers between Level 1 and Level 2 of the fair value hierarchy.

When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board of Directors. Certain factors may be considered when fair valuing investments such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold, and public trading in similar securities of the issuer or comparable issuers. These securities are either categorized as Level 2 or 3 depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of December 31, 2011 in valuing the fund's investments:

	Level 1– Unadjusted Quoted Prices	Level 2–Other Significant Observable Inputs	Level 3– Significant Unobservable Inputs	Total
Assets ($)				
Investments in Securities:				
Equity Securities– Domestic†	201,761,156	–	–	**201,761,156**
Equity Securities– Foreign†	10,883,538	–	–	**10,883,538**
Mutual Funds	10,262,998	–	–	**10,262,998**

† *See Statement of Investments for additional detailed categorizations.*

In May 2011, FASB issued Accounting Standards Update ("ASU") No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards ("IFRS")" ("ASU 2011-04"). ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU 2011-04 and its impact on the financial statements.

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

Pursuant to a securities lending agreement with The Bank of New York Mellon, a subsidiary of BNY Mellon and an affiliate of Dreyfus, the fund may lend securities to qualified institutions. It is the fund's policy that, at origination, all loans are secured by collateral of at least 102% of the value of U.S. securities loaned and 105% of the value of foreign securities loaned. Collateral equivalent to at least 100% of the market value of securities on loan is maintained at all times. Collateral is either in the form of cash, which can be invested in certain money market mutual funds managed by 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, 2011, The Bank of New York Mellon earned $16,071 from lending portfolio securities, pursuant to the securities lending agreement.

(c) Affiliated issuers: Investments in other investment companies advised by Dreyfus are defined as "affiliated" in the Act.

The fund may invest in shares of certain affiliated investment companies also advised or managed by Dreyfus. Investments in affiliated investment companies for the period ended December 31, 2011 were as follows:

Affiliated Investment Company	Value 12/31/2010 ($)	Purchases ($)	Sales ($)	Value 12/31/2011 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	772,000	25,441,969	24,681,725	1,532,244	.7
Dreyfus Institutional Cash Advantage Fund†	7,366,570	149,221,706	147,857,522	8,730,754	4.1
Total	**8,138,570**	**174,663,675**	**172,539,247**	**10,262,998**	**4.8**

† *On June 7, 2011, Dreyfus Institutional Cash Advantage Plus Fund was acquired by Dreyfus Institutional Cash Advantage Fund, resulting in a transfer of shares.*

(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 GAAP.

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

As of and during the period ended December 31, 2011, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period, the fund did not incur any interest or penalties.

Each of the tax years in the four-year period ended December 31, 2011 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2011, the components of accumulated earnings on a tax basis were as follows: ordinary income $1,808,402, accumulated capital losses $9,706,774 and unrealized appreciation $11,706,021. In addition, the fund had $1,209,449 of capital losses realized after October 31, 2011 which were deferred for tax purposes to the first day of the following fiscal year.

Under the Regulated Investment Company Modernization Act of 2010 (the "2010 Act"), the fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 ("post-enactment losses") for an unlimited period. Post-enactment capital loss carryovers will retain their character as either short-term or long-term capital losses rather than be considered short-term as they were under previous statute. However, the 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act ("pre-enactment losses"). As a result of this ordering rule, pre-enactment losses may be more likely to expire unused.

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, 2011. If not applied, the carryover expires in fiscal 2017.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2011 and December 31, 2010 were as follows: ordinary income $2,035,303 and $1,922,959, respectively.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $225 million unsecured credit facility led by Citibank, N.A. and a $300 million unsecured credit facility provided by The Bank of New York

Mellon (each, a "Facility"), each to be utilized primarily for temporary or emergency purposes, including the financing of redemptions. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing. During the period ended December 31, 2011, the fund did not borrow under the Facilities.

NOTE 3—Management Fee and Other Transactions With Affiliates:

(a) Pursuant to a management agreement with the Manager, the management fee is computed at the annual rate of .75% of the value of the fund's average daily net assets and is payable monthly.

(b) Under the Distribution Plan (the "Plan") adopted pursuant to Rule 12b-1 under the Act, Service shares pay the Distributor for distributing its shares, for servicing and/or maintaining Service shares' shareholder accounts and for advertising and marketing for Service shares. The 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, 2011, Service shares were charged $16,152 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, 2011, Initial shares were charged $14,234 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, 2011, the fund was charged $1,505 pursuant to the transfer agency agreement, which is included in Shareholder servicing costs in the Statement of Operations.

The fund has arrangements with the custodian and cash management bank 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.

The fund compensates The Bank of New York Mellon under cash management agreements for performing cash management services related to fund subscriptions and redemptions. During the period ended December 31, 2011, the fund was charged $204 pursuant to the cash management agreements, which is included in Shareholder servicing costs in the Statement of Operations. These fees were partially offset by earnings credits of $6.

The fund also compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. During the period ended December 31, 2011, the fund was charged $16,250 pursuant to the custody agreement.

During the period ended December 31, 2011, the fund was charged $6,402 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: management fees $136,746, shareholder services plan fees $2,000, Rule 12b-1 distribution plan fees $1,313, custodian fees $7,514, chief compliance officer fees $5,295 and transfer agency per account fees $330.

(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, 2011, amounted to $154,918,900 and $176,543,879, respectively.

At December 31, 2011, the cost of investments for federal income tax purposes was $211,201,671; accordingly, accumulated net unrealized appreciation on investments was $11,706,021, consisting of $27,322,715 gross unrealized appreciation and $15,616,694 gross unrealized depreciation.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of assets and liabilities of The Dreyfus Socially Responsible Growth Fund, Inc., including the statement of investments, as of December 31, 2011, 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, 2011 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, 2011, 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, 2012

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, 2011 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2012 of the percentage applicable to the preparation of their 2011 income tax returns.

INFORMATION ABOUT THE RENEWAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited)

At a meeting of the fund's Board of Directors held on July 13 and 14, 2011, the Board considered the renewal of the fund's Management Agreement pursuant to which Dreyfus provides the fund with investment advisory and administrative services (the "Agreement"). 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 Dreyfus. In considering the renewal of the Agreement, the Board considered all factors that it believed to be relevant, including those discussed below. The Board did not identify any one factor as dispositive, and each Board member may have attributed different weights to the factors considered.

Analysis of Nature, Extent, and Quality of Services Provided to the Fund. The Board members considered information previously provided to them in presentations from representatives of Dreyfus regarding the nature, extent, and quality of the services provided to funds in the Dreyfus fund complex, and representatives of Dreyfus confirmed that there had been no material changes in this information. Dreyfus provided the number of open accounts in the fund, the fund's asset size and the allocation of fund assets among distribution channels. Dreyfus also had previously provided information regarding the diverse intermediary relationships and distribution channels of funds in the Dreyfus fund complex and Dreyfus' corresponding need for broad, deep, and diverse resources to be able to provide ongoing shareholder services to each distribution channel, including the distribution channel(s) for the fund.

The Board members also considered research support available to, and portfolio management capabilities of, the fund's portfolio management personnel and that Dreyfus also provides oversight of day-to-day fund operations, including fund accounting and administration and assistance in meeting legal and regulatory requirements. The Board members also considered Dreyfus' extensive administrative, accounting, and compliance infrastructures. The Board also considered portfolio management's brokerage policies and practices (including policies and practices regarding soft dollars) and the standards applied in seeking best execution.

Comparative Analysis of the Fund's Performance and Management Fee and Expense Ratio. The Board members reviewed reports prepared by Lipper, Inc. ("Lipper"), an independent provider of investment company data, which included information comparing (1) the fund's performance with the performance of a group of comparable funds (the "Performance Group 1") and with a broader group of funds ("Performance Universe 1"), with each group consisting of funds from the same Lipper Category as that of the fund, for the period ended May 31, 2011, (2) the fund's performance with the performance of a group of social criteria funds from different Lipper categories included at the request of Dreyfus ("Performance Group 2") and with a broader group of funds ("Performance Universe 2"), for the period ended May 31, 2011, and (3) the fund's actual and contractual management fees and total expenses with those of groups of comparable funds identical to Performance Group 1 ("Expense Group 1") and Performance Group 2 ("Expense Group 2") and with broader groups of funds that included the Performance Group 1 funds and Performance Group 2 funds, respectively ("Expense Universe 1" and "Expense Universe 2", respectively), the information for which was derived in part from fund financial statements available to Lipper as of December 31, 2010. Dreyfus previously had furnished the Board with a description of the methodology Lipper used to select the Performance Groups, the Performance Universes, the Expense Groups and the Expense Universes.

Dreyfus representatives stated that the usefulness of performance comparisons may be affected by a number of factors, including different investment limitations that may be applicable to the fund and comparison funds. The Board members discussed the results of the comparisons and noted that the fund's total return performance was above the median for Performance Group 1 and Performance Universe 1 for all periods except the ten-year period, and variously above and below the median for Performance Group 2 and Performance Universe 2. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of the fund's benchmark index.

The Board members also reviewed the range of actual and contractual management fees and total expenses of the funds in each Expense Group and each Expense Universe and discussed the results of the comparisons. They noted that the fund's contractual management fee was at the Expense Group 1 median, below the Expense Group 2 median, the fund's actual management fee was above the Expense Group 1, Expense Universe 1 and Expense Universe 2 medians and below the Expense Group 2 median, the fund's total expenses were above the Expense Group 1, Expense Universe 1, Expense Group 2 and Expense Universe 2 medians. Representatives of Dreyfus reviewed with the Board members the management or investment advisory fees (1) paid by funds advised or administered by Dreyfus that are in the same Lipper category as the fund and (2) paid to Dreyfus or the Dreyfus-affiliated primary employer of the fund's primary portfolio manager for advising any separate accounts and/or other types of client portfolios that are considered to have similar investment strategies and policies as the fund (the "Similar Clients"), and explained the nature of the Similar Clients. They discussed differences in fees paid and the relationship of the fees paid in light of any differences in the services provided and other relevant factors. The Board members considered the relevance of the fee information provided for the Similar Clients to evaluate the appropriateness and reasonableness of the fund's management fee.

<u>Analysis of Profitability and Economies of Scale.</u> Dreyfus' representatives reviewed the expenses allocated and profit received by Dreyfus and the resulting profitability percentage for managing the fund, and the method used to determine the expenses and profit. The Board concluded that the profitability results were not unreasonable, given the services rendered and service levels provided by Dreyfus. The

Board previously had been provided with information prepared by an independent consulting firm regarding Dreyfus' approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus fund complex. The consulting firm also had analyzed where any economies of scale might emerge in connection with the management of a fund.

The Board's counsel stated that the Board members should consider the profitability analysis (1) as part of their evaluation of whether the fees under the Agreement bear a reasonable relationship to the mix of services provided by Dreyfus, including the nature, extent and quality of such services, and (2) in light of the relevant circumstances for the fund 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. They also noted that, as a result of shared and allocated costs among funds in the Dreyfus fund complex, the extent of economies of scale could depend substantially on the level of assets in the complex as a whole, so that increases and decreases in complex-wide assets can affect potential economies of scale in a manner that is disproportionate to, or even in the opposite direction from, changes in the fund's asset level. The Board members also considered potential benefits to Dreyfus from acting as investment adviser and noted the soft dollar arrangements in effect for trading the fund's investments.

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 the renewal of the Agreement. Based on the discussions and considerations as described above, the Board concluded and determined as follows.

- The Board concluded that the nature, extent and quality of the services provided by Dreyfus are adequate and appropriate.
- The Board generally was satisfied with the fund's overall performance.
- The Board concluded that the fee paid to Dreyfus was reasonable in light of the considerations described above.

- The Board determined that the economies of scale which may accrue to Dreyfus and its affiliates in connection with the management of the fund had been adequately considered by Dreyfus in connection with the fee rate charged to the fund pursuant to the Agreement 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 information received on a routine and regular basis throughout the year. In addition, it should be noted that the Board's consideration of the contractual fee arrangements for this fund had the benefit of a number of years of reviews of prior or similar agreements during which lengthy discussions took place between the Board members and Dreyfus representatives. Certain aspects of the arrangements may receive greater scrutiny in some years than in others, and the Board members' conclusions may be based, in part, on their consideration of the same or similar arrangements in prior years. The Board members determined that renewal of the Agreement was in the best interests of the fund and its shareholders.

Joseph S. DiMartino (68)
Chairman of the Board (1995)

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

Other Public Company Board Memberships During Past 5 Years:
- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (1997-present)
- Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director (2005-2009)
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director (2000-2010)

No. of Portfolios for which Board Member Serves: 164

Clifford L. Alexander, Jr. (78)
Board Member (1992)

Principal Occupation During Past 5 Years:
- President of Alexander & Associates, Inc., a management consulting firm (January 1981-present)

No. of Portfolios for which Board Member Serves: 45

David W. Burke (75)
Board Member (2003)

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

No. of Portfolios for which Board Member Serves: 81

Whitney I. Gerard (77)
Board Member (2003)

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

No. of Portfolios for which Board Member Serves: 25

Nathan Leventhal (68)
Board Member (2009)

Principal Occupation During Past 5 Years:
- Commissioner, NYC Planning Commission (March 2007-present)
- Chairman of the Avery-Fisher Artist Program (November 1997-present)

Other Public Company Board Memberships During Past 5 Years:
- Movado Group, Inc., Director

No. of Portfolios for which Board Member Serves: 43

George L. Perry (77)
Board Member (2003)

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

No. of Portfolios for which Board Member Serves: 25

Benaree Pratt Wiley (65)
Board Member (2009)

Principal Occupation During Past 5 Years:
- Principal, The Wiley Group, a firm specializing in strategy and business development (2005-present)

Other Public Company Board Memberships During Past 5 Years:
- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (2008-present)

No. of Portfolios for which Board Member Serves: 66

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-DREYFUS.

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

BRADLEY J. SKAPYAK, President since January 2010.

Chief Operating Officer and a director of the Manager since June 2009. From April 2003 to June 2009, Mr. Skapyak was the head of the Investment Accounting and Support Department of the Manager. He is an officer of 75 investment companies (comprised of 163 portfolios) managed by the Manager. He is 53 years old and has been an employee of the Manager since February 1988.

JANETTE E. FARRAGHER, Vice President and Secretary since December 2011.

Assistant General Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 49 years old and has been an employee of the Manager since February 1984.

KIESHA ASTWOOD, Vice President and Assistant Secretary since January 2010.

Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 38 years old and has been an employee of the Manager since July 1995.

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

Senior Counsel of BNY Mellon and Secretary of the Manager, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 45 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 56 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 50 years old and has been an employee of the Manager since June 2000.

KATHLEEN DENICHOLAS, Vice President and Assistant Secretary since January 2010.

Managing Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 37 years old and has been an employee of the Manager since February 2001.

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

Senior Managing Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since February 1991.

M. CRISTINA MEISER, Vice President and Assistant Secretary since January 2010.

Senior Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. She is 41 years old and has been an employee of the Manager since August 2001.

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

Managing Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 59 years old and has been an employee of the Manager since May 1986.

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

Senior Managing Counsel of BNY Mellon, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 46 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 53 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 52 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 43 years old and has been an employee of the Manager since April 1991.

ROBERT S. ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager – Fixed Income Funds of the Manager, and an officer of 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 47 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 44 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 76 investment companies (comprised of 189 portfolios) managed by the Manager. He is 44 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 (76 investment companies, comprised of 189 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 54 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.

STEPHEN J. STOREN, Anti-Money Laundering Compliance Officer since May 2011.

Chief Compliance Officer of the Distributor, and the Anti-Money Laundering Compliance Officer of 72 investment companies (comprised of 185 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Distributor since October 1999.

NOTES

For More Information

The Dreyfus Socially Responsible Growth Fund, Inc.
200 Park Avenue
New York, NY 10166

Manager

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Custodian

The Bank of New York Mellon
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 1-516-338-3300

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 most recent 12-month period ended June 30 is available at http://www.dreyfus.com and on the SEC's website at http://www.sec.gov. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-DREYFUS.

Printed on recycled paper.
50% post-consumer.
Process chlorine free.
Vegetable-based ink.

Printed in U.S.A.

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DECEMBER 31, 2011

ANNUAL REPORT

DWS INVESTMENTS VIT FUNDS

DWS Equity 500 Index VIP

Deutsche Bank Group

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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Various factors, including costs, cash flows and security selection, may cause the Fund's performance to differ from that of the index. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

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

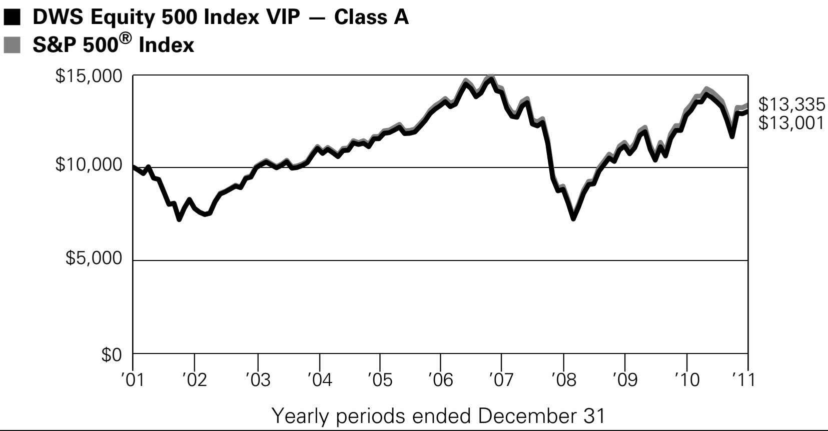
Performance Summary

December 31, 2011

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance figures for Classes A, B and B2 differ because each class maintains a distinct expense structure. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 0.33%, 0.58% and 0.73% for Class A, Class B and Class B2 shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



The Standard & Poor's 500® (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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

Comparative Results (as of December 31, 2011)

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,183	$14,756	$9,765	$13,001
	Average annual total return	1.83%	13.85%	–0.47%	2.66%
S&P 500 Index	Growth of $10,000	$10,211	$14,859	$9,876	$13,335
	Average annual total return	2.11%	14.11%	–0.25%	2.92%

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,150	$14,649	$9,641	$13,487
	Average annual total return	1.50%	13.57%	–0.73%	3.14%
S&P 500 Index	Growth of $10,000	$10,211	$14,859	$9,876	$14,157
	Average annual total return	2.11%	14.11%	–0.25%	3.66%

DWS Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Class**
Class B2	Growth of $10,000	$10,143	$14,581	$9,577	$11,161
	Average annual total return	1.43%	13.40%	–0.86%	1.76%
S&P 500 Index	Growth of $10,000	$10,211	$14,859	$9,876	$11,674
	Average annual total return	2.11%	14.11%	–0.25%	2.51%

The growth of $10,000 is cumulative.

* The Fund commenced offering Class B shares on April 30, 2002. Index returns began on April 30, 2002.

** The Fund commenced offering Class B2 shares on September 16, 2005. Index returns began on September 30, 2005.

Management Summary

Although concerns about the economic outlook and the potential impact of the European debt crisis periodically weighed on investor sentiment during the past 12 months, the Standard & Poor's 500® (S&P 500) Index finished 2011 with a total return of 2.11%.[1]

The Fund returned 1.83% during 2011 (Class A shares, unadjusted for contract charges). Since the Fund's investment strategy is to replicate the performance of the S&P 500 Index as closely as possible before the deduction of expenses, the Fund's return is normally close to the return of the index.

The U.S. equity market began the annual period on a strong note, as the U.S. Federal Reserve Board's (the Fed's) stimulative "quantitative easing" initiative, signs of improving economic growth, strong corporate earnings and a more business-friendly political backdrop gave investors the green light to buy stocks through the first five months of the year.[2] From that point, the investing backdrop gradually grew less favorable for three important reasons. The primary issue weighing on the market was the European debt crisis, which threatened the health of the region's banking sector and increased fears of a broader financial system collapse similar to what we witnessed in 2008–2009. At the same time, growth in China — which is generally seen as the engine of the world economy — slowed precipitously, raising fears that slackening growth was a worldwide phenomenon and not one limited to the developed markets. Even more relevant to the U.S. market, the domestic economy exhibited weakness in a number of areas.

In response to these developments, the U.S. stock market (as represented by the S&P 500 Index) slipped lower during June and then plunged 13.78% in the third quarter. Larger, more stable companies such as those represented in the S&P 500 Index outperformed in this environment, but — as the double-digit loss would indicate — they were nonetheless hit hard in the downturn. The market subsequently staged a recovery in the fourth quarter following a pickup in a number of key economic indicators, enabling the index to finish the period virtually unchanged.

The best-performing sectors for the full year were generally the more defensive areas of the market, such as utilities, consumer staples and health care.[3] On the other side of the ledger, the worst performers were financials and the more economically sensitive market segments, such as materials and industrials.

We continue to follow a passive strategy designed to provide returns that approximate those of the benchmark.

Brent Reeder

Senior Vice President, Northern Trust Investments, Inc., Subadvisor to the Fund

1 The Standard & Poor's 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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

"Standard & Poor's," "S&P," "S&P 500," "Standard & Poor's 500" and "500" are trademarks of The McGraw-Hill Companies, Inc., and have been licensed for use by the Fund's advisor. DWS Equity 500 Index VIP is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the Fund. There is no guarantee that the Fund will be able to mirror the S&P 500 index closely enough to track its performance.

2 Quantitative easing is a type of monetary policy whereby governments buy government or other types of securities from the market in order to increase the money supply.

3 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common and Preferred Stocks	99%	99%
Cash Equivalents*	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/11**	**12/31/10**
Information Technology	19%	19%
Financials	14%	16%
Energy	12%	12%
Health Care	12%	11%
Consumer Staples	11%	11%
Industrials	11%	11%
Consumer Discretionary	11%	10%
Utilities	4%	3%
Materials	3%	4%
Telecommunication Services	3%	3%
	100%	100%

Ten Largest Equity Holdings (20.1% of Net Assets)	
1. Exxon Mobil Corp. Explorer and producer of oil and gas	**3.5%**
2. Apple, Inc. Manufacturer of personal computers and communication solutions	**3.3%**
3. International Business Machines Corp. Manufacturer of computers and provider of information processing services	**1.9%**
4. Chevron Corp. Operator of petroleum exploration, delivery and refining facilities	**1.8%**
5. Microsoft Corp. Developer of computer software	**1.7%**
6. General Electric Co. A diversified company provider of services to the technology, media and financial industries	**1.6%**
7. Procter & Gamble Co. Manufacturer of diversified consumer products	**1.6%**
8. AT&T, Inc. Provider of communications services	**1.6%**
9. Johnson & Johnson Provider of health care products	**1.6%**
10. Pfizer, Inc. Manufacturer of prescription pharmaceuticals and nonprescription self-medications	**1.5%**

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

* In order to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market, the Fund invests in futures contracts.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 99.3%		
Consumer Discretionary 10.6%		
Auto Components 0.3%		
BorgWarner, Inc.*	6,624	422,214
Goodyear Tire & Rubber Co.*	15,452	218,955
Johnson Controls, Inc.	40,912	1,278,909
		1,920,078
Automobiles 0.4%		
Ford Motor Co.*	230,843	2,483,871
Harley-Davidson, Inc.	14,254	554,053
		3,037,924
Distributors 0.1%		
Genuine Parts Co.	9,645	**590,274**
Diversified Consumer Services 0.1%		
Apollo Group, Inc. "A"*	6,872	370,195
DeVry, Inc.	3,933	151,263
H&R Block, Inc.	17,954	293,189
		814,647
Hotels Restaurants & Leisure 2.0%		
Carnival Corp. (Units) (a)	27,317	891,627
Chipotle Mexican Grill, Inc.*	1,893	639,342
Darden Restaurants, Inc. (a)	8,012	365,187
International Game Technology	17,850	307,020
Marriott International, Inc. "A"	16,253	474,100
McDonald's Corp.	61,977	6,218,152
Starbucks Corp.	45,425	2,090,004
Starwood Hotels & Resorts Worldwide, Inc.	11,547	553,910
Wyndham Worldwide Corp.	9,065	342,929
Wynn Resorts Ltd. (a)	4,831	533,777
Yum! Brands, Inc.	28,007	1,652,693
		14,068,741
Household Durables 0.2%		
D.R. Horton, Inc.	16,195	204,219
Harman International Industries, Inc.	4,431	168,555
Leggett & Platt, Inc.	8,242	189,896
Lennar Corp. "A" (a)	10,081	198,092
Newell Rubbermaid, Inc.	17,127	276,601
Pulte Group, Inc.*	21,117	133,248
Whirlpool Corp.	4,487	212,908
		1,383,519
Internet & Catalog Retail 0.8%		
Amazon.com, Inc.*	22,063	3,819,105
Expedia, Inc.	5,593	162,309
Netflix, Inc.* (a)	3,416	236,695
Priceline.com, Inc.* (a)	3,001	1,403,598
TripAdvisor, Inc.*	5,593	140,999
		5,762,706
Leisure Equipment & Products 0.1%		
Hasbro, Inc.	6,824	217,617
Mattel, Inc. (a)	20,625	572,550
		790,167
Media 3.1%		
Cablevision Systems Corp. (New York Group) "A"	13,294	189,041
CBS Corp. "B"	39,577	1,074,120
Comcast Corp. "A"	165,635	3,927,206
DIRECTV "A"*	42,868	1,833,036
Discovery Communications, Inc. "A"*	16,029	656,708
Gannett Co., Inc.	15,090	201,753
Interpublic Group of Companies, Inc.	28,866	280,866
McGraw-Hill Companies, Inc.	17,619	792,326
News Corp. "A"	133,082	2,374,183
Omnicom Group, Inc.	16,841	750,772
Scripps Networks Interactive "A"	5,749	243,873
Time Warner Cable, Inc.	19,282	1,225,757
Time Warner, Inc. (a)	60,750	2,195,505
Viacom, Inc. "B"	33,477	1,520,190
Walt Disney Co. (a)	108,951	4,085,662
Washington Post Co. "B" (a)	267	100,608
		21,451,606
Multiline Retail 0.8%		
Big Lots, Inc.*	4,114	155,345
Dollar Tree, Inc.*	7,372	612,687
Family Dollar Stores, Inc.	7,231	416,940
JC Penney Co., Inc. (a)	8,443	296,771
Kohl's Corp.	15,338	756,930
Macy's, Inc.	25,763	829,053
Nordstrom, Inc.	9,803	487,307
Sears Holdings Corp.* (a)	2,414	76,717
Target Corp.	40,710	2,085,166
		5,716,916
Specialty Retail 2.0%		
Abercrombie & Fitch Co. "A"	5,169	252,454
AutoNation, Inc.* (a)	2,764	101,909
AutoZone, Inc.*	1,692	549,849
Bed Bath & Beyond, Inc.*	14,432	836,623
Best Buy Co., Inc.	18,008	420,847
CarMax, Inc.* (a)	13,654	416,174
GameStop Corp. "A"*	8,132	196,225
Home Depot, Inc.	93,396	3,926,368
Limited Brands, Inc.	14,907	601,498
Lowe's Companies, Inc.	76,011	1,929,159
O'Reilly Automotive, Inc.*	7,736	618,493
Orchard Supply Hardware Stores Corp. "A"*	109	453
Ross Stores, Inc.	13,966	663,804
Staples, Inc.	42,780	594,214
The Gap, Inc.	20,965	388,901
Tiffany & Co.	7,682	509,009
TJX Companies, Inc. (a)	22,979	1,483,295
Urban Outfitters, Inc.*	6,480	178,589
		13,667,864
Textiles, Apparel & Luxury Goods 0.7%		
Coach, Inc.	17,765	1,084,376
NIKE, Inc. "B"	22,457	2,164,181
Ralph Lauren Corp.	3,910	539,893
VF Corp. (a)	5,346	678,888
		4,467,338
Consumer Staples 11.5%		
Beverages 2.7%		
Beam, Inc.	9,292	476,029
Brown-Forman Corp. "B"	6,010	483,865
Coca-Cola Co. (a)	137,699	9,634,799

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

	Shares	Value ($)
Coca-Cola Enterprises, Inc.	19,204	495,079
Constellation Brands, Inc. "A"*	10,205	210,937
Dr. Pepper Snapple Group, Inc. (a)	13,065	515,806
Molson Coors Brewing Co. "B"	9,546	415,633
PepsiCo, Inc.	94,813	6,290,843
		18,522,991
Food & Staples Retailing 2.4%		
Costco Wholesale Corp.	26,380	2,197,982
CVS Caremark Corp.	78,980	3,220,804
Kroger Co.	36,429	882,310
Safeway, Inc.	20,110	423,114
SUPERVALU, Inc.	13,849	112,454
Sysco Corp. (a)	35,668	1,046,143
Wal-Mart Stores, Inc.	105,901	6,328,644
Walgreen Co.	53,879	1,781,240
Whole Foods Market, Inc.	9,759	679,031
		16,671,722
Food Products 1.9%		
Archer-Daniels-Midland Co. (a)	40,717	1,164,506
Campbell Soup Co. (a)	11,044	367,103
ConAgra Foods, Inc.	24,955	658,812
Dean Foods Co.*	11,939	133,717
General Mills, Inc.	38,915	1,572,555
H.J. Heinz Co. (a)	19,312	1,043,620
Hormel Foods Corp.	7,999	234,291
Kellogg Co.	15,006	758,853
Kraft Foods, Inc. "A"	107,213	4,005,478
McCormick & Co., Inc.	7,927	399,679
Mead Johnson Nutrition Co.	12,282	844,142
Sara Lee Corp.	35,423	670,203
The Hershey Co.	9,292	574,060
The JM Smucker Co.	6,858	536,090
Tyson Foods, Inc. "A"	17,876	368,961
		13,332,070
Household Products 2.3%		
Clorox Co.	7,952	529,285
Colgate-Palmolive Co.	29,310	2,707,951
Kimberly-Clark Corp.	24,021	1,766,984
Procter & Gamble Co.	166,873	11,132,098
		16,136,318
Personal Products 0.2%		
Avon Products, Inc.	25,944	453,242
Estee Lauder Companies, Inc. "A"	6,817	765,685
		1,218,927
Tobacco 2.0%		
Altria Group, Inc.	124,767	3,699,342
Lorillard, Inc.	8,179	932,406
Philip Morris International, Inc.	105,304	8,264,258
Reynolds American, Inc.	20,365	843,518
		13,739,524
Energy 12.2%		
Energy Equipment & Services 2.0%		
Baker Hughes, Inc.	26,340	1,281,178
Cameron International Corp.*	14,811	728,553
Diamond Offshore Drilling, Inc. (a)	4,078	225,350
FMC Technologies, Inc.*	14,536	759,215
Halliburton Co.	56,108	1,936,287
Helmerich & Payne, Inc.	6,668	389,145
Nabors Industries Ltd.*	16,991	294,624
National Oilwell Varco, Inc.	25,853	1,757,745
Noble Corp.*	15,291	462,094
Rowan Companies, Inc.*	7,433	225,443
Schlumberger Ltd.	81,347	5,556,814
		13,616,448
Oil, Gas & Consumable Fuels 10.2%		
Alpha Natural Resources, Inc.*	13,605	277,950
Anadarko Petroleum Corp.	30,250	2,308,983
Apache Corp.	23,353	2,115,315
Cabot Oil & Gas Corp.	6,301	478,246
Chesapeake Energy Corp. (a)	39,839	888,011
Chevron Corp.	120,695	12,841,948
ConocoPhillips	80,413	5,859,695
CONSOL Energy, Inc.	13,681	502,093
Denbury Resources, Inc.*	24,183	365,163
Devon Energy Corp.	24,422	1,514,164
El Paso Corp.	46,412	1,233,167
EOG Resources, Inc.	16,384	1,613,988
EQT Corp.	9,005	493,384
Exxon Mobil Corp.	290,465	24,619,813
Hess Corp.	18,233	1,035,634
Marathon Oil Corp.	43,104	1,261,654
Marathon Petroleum Corp.	21,496	715,602
Murphy Oil Corp.	11,660	649,928
Newfield Exploration Co.*	7,974	300,859
Noble Energy, Inc.	10,635	1,003,838
Occidental Petroleum Corp.	49,191	4,609,197
Peabody Energy Corp.	16,338	540,951
Pioneer Natural Resources Co.	7,381	660,452
QEP Resources, Inc.	10,652	312,104
Range Resources Corp.	9,380	580,997
Southwestern Energy Co.*	20,963	669,558
Spectra Energy Corp.	39,798	1,223,789
Sunoco, Inc.	6,240	255,965
Tesoro Corp.*	8,509	198,770
Valero Energy Corp.	33,528	705,764
Williams Companies, Inc.	36,120	1,192,682
		71,029,664
Financials 13.5%		
Capital Markets 1.8%		
Ameriprise Financial, Inc.	13,741	682,103
Bank of New York Mellon Corp.	73,082	1,455,063
BlackRock, Inc.	6,042	1,076,926
Charles Schwab Corp. (a)	64,875	730,492
E*TRADE Financial Corp.*	16,189	128,864
Federated Investors, Inc. "B" (a)	5,944	90,052
Franklin Resources, Inc.	8,753	840,813
Invesco Ltd.	27,156	545,564
Legg Mason, Inc.	7,842	188,600
Morgan Stanley	89,446	1,353,318
Northern Trust Corp.	15,757	624,923
State Street Corp.	29,804	1,201,399
T. Rowe Price Group, Inc. (a)	15,409	877,543
The Goldman Sachs Group, Inc.	29,857	2,699,969
		12,495,629
Commercial Banks 2.6%		
BB&T Corp. (a)	42,657	1,073,677
Comerica, Inc.	11,550	297,990
Fifth Third Bancorp.	55,224	702,449
First Horizon National Corp.	16,686	133,488
Huntington Bancshares, Inc.	51,047	280,248
KeyCorp	59,242	455,571
M&T Bank Corp. (a)	7,453	568,962
PNC Financial Services Group, Inc.	32,010	1,846,017

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	Shares	Value ($)
Regions Financial Corp.	75,468	324,512
SunTrust Banks, Inc.	33,128	586,366
U.S. Bancorp.	115,583	3,126,520
Wells Fargo & Co.	319,648	8,809,499
Zions Bancorp.	11,519	187,529
		18,392,828
Consumer Finance 0.8%		
American Express Co.	61,306	2,891,804
Capital One Financial Corp. (a)	27,702	1,171,517
Discover Financial Services	32,958	790,992
SLM Corp.	30,457	408,124
		5,262,437
Diversified Financial Services 2.7%		
Bank of America Corp.	614,718	3,417,832
Citigroup, Inc.	177,289	4,664,474
CME Group, Inc. "A"	4,024	980,528
IntercontinentalExchange, Inc.* (a)	4,425	533,434
JPMorgan Chase & Co.	230,379	7,660,102
Leucadia National Corp.	11,812	268,605
Moody's Corp. (a)	12,079	406,821
NYSE Euronext	15,782	411,910
The NASDAQ OMX Group, Inc.*	8,146	199,658
		18,543,364
Insurance 3.5%		
ACE Ltd.	20,359	1,427,573
Aflac, Inc.	28,117	1,216,341
Allstate Corp.	30,346	831,784
American International Group, Inc.*	26,330	610,856
Aon Corp.	19,716	922,709
Assurant, Inc.	5,696	233,878
Berkshire Hathaway, Inc. "B"*	106,613	8,134,572
Chubb Corp.	16,914	1,170,787
Cincinnati Financial Corp. (a)	9,788	298,142
Genworth Financial, Inc. "A"*	28,423	186,170
Hartford Financial Services Group, Inc.	26,831	436,004
Lincoln National Corp.	17,883	347,288
Loews Corp.	18,831	708,987
Marsh & McLennan Companies, Inc.	32,674	1,033,152
MetLife, Inc.	64,383	2,007,462
Principal Financial Group, Inc.	18,682	459,577
Progressive Corp.	37,349	728,679
Prudential Financial, Inc.	28,649	1,435,888
The Travelers Companies, Inc.	24,875	1,471,854
Torchmark Corp. (a)	6,228	270,233
Unum Group	17,758	374,161
XL Group PLC	19,865	392,731
		24,698,828
Real Estate Investment Trusts 2.0%		
American Tower Corp. "A" (REIT)	23,911	1,434,899
Apartment Investment & Management Co. "A" (REIT)	7,725	176,980
AvalonBay Communities, Inc. (REIT)	5,864	765,838
Boston Properties, Inc. (REIT)	8,835	879,966
Equity Residential (REIT)	17,850	1,017,986
HCP, Inc. (REIT)	24,542	1,016,775
Health Care REIT, Inc. (REIT) (a)	11,357	619,297
Host Hotels & Resorts, Inc. (REIT)	42,545	628,390
Kimco Realty Corp. (REIT)	24,400	396,256
Plum Creek Timber Co., Inc. (REIT) (a)	9,740	356,094

	Shares	Value ($)
ProLogis, Inc. (REIT)	27,634	790,056
Public Storage (REIT)	8,697	1,169,399
Simon Property Group, Inc. (REIT)	17,899	2,307,897
Ventas, Inc. (REIT)	17,333	955,568
Vornado Realty Trust (REIT)	11,105	853,530
Weyerhaeuser Co. (REIT)	32,504	606,850
		13,975,781
Real Estate Management & Development 0.0%		
CBRE Group, Inc.*	20,284	**308,723**
Thrifts & Mortgage Finance 0.1%		
Hudson City Bancorp., Inc.	30,331	189,569
People's United Financial, Inc.	21,302	273,730
		463,299
Health Care 11.8%		
Biotechnology 1.2%		
Amgen, Inc. (a)	48,151	3,091,775
Biogen Idec, Inc.*	14,798	1,628,520
Celgene Corp.*	26,905	1,818,778
Gilead Sciences, Inc.*	45,432	1,859,532
		8,398,605
Health Care Equipment & Supplies 1.8%		
Baxter International, Inc.	34,257	1,695,036
Becton, Dickinson & Co.	13,119	980,252
Boston Scientific Corp.*	88,509	472,638
C.R. Bard, Inc.	5,169	441,949
CareFusion Corp.*	13,314	338,309
Covidien PLC	29,272	1,317,533
DENTSPLY International, Inc.	8,473	296,470
Edwards Lifesciences Corp.*	6,935	490,304
Intuitive Surgical, Inc.*	2,356	1,090,852
Medtronic, Inc.	64,224	2,456,568
St. Jude Medical, Inc.	19,298	661,921
Stryker Corp.	19,904	989,428
Varian Medical Systems, Inc.*	6,830	458,498
Zimmer Holdings, Inc.*	10,883	581,370
		12,271,128
Health Care Providers & Services 2.1%		
Aetna, Inc.	21,994	927,927
AmerisourceBergen Corp.	15,622	580,982
Cardinal Health, Inc.	20,797	844,566
CIGNA Corp.	17,179	721,518
Coventry Health Care, Inc.*	8,876	269,564
DaVita, Inc.*	5,561	421,580
Express Scripts, Inc.*	29,425	1,315,003
Humana, Inc.	9,835	861,645
Laboratory Corp. of America Holdings*	6,097	524,159
McKesson Corp.	14,854	1,157,275
Medco Health Solutions, Inc.*	23,600	1,319,240
Patterson Companies, Inc.	5,408	159,644
Quest Diagnostics, Inc.	9,551	554,531
Tenet Healthcare Corp.*	26,741	137,181
UnitedHealth Group, Inc.	64,447	3,266,174
WellPoint, Inc.	21,182	1,403,308
		14,464,297
Health Care Technology 0.1%		
Cerner Corp.*	8,756	**536,305**
Life Sciences Tools & Services 0.4%		
Agilent Technologies, Inc.*	20,928	731,015
Life Technologies Corp.*	10,880	423,341

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

	Shares	Value ($)
PerkinElmer, Inc.	7,110	142,200
Thermo Fisher Scientific, Inc.*	23,002	1,034,400
Waters Corp.*	5,514	408,312
		2,739,268
Pharmaceuticals 6.2%		
Abbott Laboratories	94,450	5,310,924
Allergan, Inc.	18,530	1,625,822
Bristol-Myers Squibb Co. (a)	102,810	3,623,024
Eli Lilly & Co.	61,949	2,574,601
Forest Laboratories, Inc.*	16,514	499,714
Hospira, Inc.*	9,941	301,908
Johnson & Johnson	165,581	10,858,802
Merck & Co., Inc.	184,787	6,966,470
Mylan, Inc.*	26,172	561,651
Perrigo Co.	5,638	548,577
Pfizer, Inc.	466,000	10,084,240
Watson Pharmaceuticals, Inc.*	7,604	458,825
		43,414,558
Industrials 10.6%		
Aerospace & Defense 2.6%		
Boeing Co.	45,198	3,315,273
General Dynamics Corp.	21,495	1,427,483
Goodrich Corp.	7,548	933,688
Honeywell International, Inc.	46,749	2,540,808
L-3 Communications Holdings, Inc.	5,991	399,480
Lockheed Martin Corp. (a)	16,278	1,316,890
Northrop Grumman Corp. (a)	15,801	924,042
Precision Castparts Corp.	8,684	1,431,036
Raytheon Co.	20,936	1,012,884
Rockwell Collins, Inc.	9,128	505,417
Textron, Inc. (a)	16,506	305,196
United Technologies Corp.	55,051	4,023,678
		18,135,875
Air Freight & Logistics 1.0%		
C.H. Robinson Worldwide, Inc.	9,939	693,544
Expeditors International of Washington, Inc.	12,777	523,346
FedEx Corp.	19,363	1,617,004
United Parcel Service, Inc. "B"	58,423	4,275,979
		7,109,873
Airlines 0.1%		
Southwest Airlines Co.	47,746	**408,706**
Building Products 0.0%		
Masco Corp.	20,625	**216,150**
Commercial Services & Supplies 0.4%		
Avery Dennison Corp.	6,750	193,590
Cintas	6,981	243,009
Iron Mountain, Inc. (a)	11,358	349,826
Pitney Bowes, Inc. (a)	11,853	219,755
R.R. Donnelley & Sons Co. (a)	11,710	168,975
Republic Services, Inc.	19,407	534,663
Stericycle, Inc.*	5,154	401,600
Waste Management, Inc.	27,896	912,478
		3,023,896
Construction & Engineering 0.2%		
Fluor Corp.	10,396	522,399
Jacobs Engineering Group, Inc.*	7,984	323,991
Quanta Services, Inc.*	12,661	272,718
		1,119,108

	Shares	Value ($)
Electrical Equipment 0.5%		
Cooper Industries PLC	9,563	517,836
Emerson Electric Co.	44,496	2,073,069
Rockwell Automation, Inc.	8,649	634,577
Roper Industries, Inc.	5,770	501,240
		3,726,722
Industrial Conglomerates 2.6%		
3M Co.	42,479	3,471,809
Danaher Corp.	34,705	1,632,523
General Electric Co. (a)	640,491	11,471,194
Tyco International Ltd.	27,945	1,305,311
		17,880,837
Machinery 2.0%		
Caterpillar, Inc.	39,200	3,551,520
Cummins, Inc.	11,747	1,033,971
Deere & Co. (a)	25,217	1,950,535
Dover Corp.	11,198	650,044
Eaton Corp.	20,079	874,039
Flowserve Corp.	3,302	327,955
Illinois Tool Works, Inc.	29,187	1,363,325
Ingersoll-Rand PLC	18,824	573,567
Joy Global, Inc.	6,333	474,785
PACCAR, Inc.	21,451	803,769
Pall Corp.	6,978	398,793
Parker Hannifin Corp.	9,102	694,027
Snap-on, Inc.	3,679	186,231
Stanley Black & Decker, Inc.	10,164	687,086
Xylem, Inc.	11,041	283,643
		13,853,290
Professional Services 0.1%		
Dun & Bradstreet Corp.	2,834	212,068
Equifax, Inc.	7,191	278,579
Robert Half International, Inc. (a)	8,358	237,869
		728,516
Road & Rail 0.9%		
CSX Corp.	63,748	1,342,533
Norfolk Southern Corp.	20,440	1,489,258
Ryder System, Inc.	3,259	173,183
Union Pacific Corp.	29,207	3,094,190
		6,099,164
Trading Companies & Distributors 0.2%		
Fastenal Co. (a)	17,803	776,389
W.W. Grainger, Inc. (a)	3,668	686,613
		1,463,002
Information Technology 18.9%		
Communications Equipment 2.1%		
Cisco Systems, Inc.	326,156	5,896,901
F5 Networks, Inc.*	4,862	515,955
Harris Corp. (a)	6,956	250,694
JDS Uniphase Corp.*	14,116	147,371
Juniper Networks, Inc.*	32,109	655,345
Motorola Mobility Holdings, Inc.*	15,746	610,945
Motorola Solutions, Inc.	17,232	797,669
QUALCOMM, Inc.	102,024	5,580,713
		14,455,593
Computers & Peripherals 4.6%		
Apple, Inc.*	56,359	22,825,395
Dell, Inc.*	92,116	1,347,657
EMC Corp.* (a)	123,516	2,660,535
Hewlett-Packard Co.	120,575	3,106,012

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

	Shares	Value ($)
Lexmark International, Inc. "A"	4,234	140,018
NetApp, Inc.*	21,658	785,536
SanDisk Corp.*	14,435	710,346
Western Digital Corp.*	14,050	434,847
		32,010,346
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	10,202	463,069
Corning, Inc.	94,670	1,228,817
FLIR Systems, Inc.	9,357	234,580
Jabil Circuit, Inc.	11,456	225,225
Molex, Inc.	7,976	190,307
TE Connectivity Ltd.	25,462	784,484
		3,126,482
Internet Software & Services 2.0%		
Akamai Technologies, Inc.*	11,110	358,631
eBay, Inc.*	69,763	2,115,912
Google, Inc. "A"*	15,318	9,893,896
VeriSign, Inc.	9,787	349,592
Yahoo!, Inc.*	74,788	1,206,330
		13,924,361
IT Services 3.9%		
Accenture PLC "A"	38,826	2,066,708
Automatic Data Processing, Inc.	29,472	1,591,783
Cognizant Technology Solutions Corp. "A"*	18,291	1,176,294
Computer Sciences Corp.	9,209	218,253
Fidelity National Information Services, Inc.	14,958	397,733
Fiserv, Inc.*	8,507	499,701
International Business Machines Corp.	71,452	13,138,594
MasterCard, Inc. "A"	6,433	2,398,351
Paychex, Inc.	19,385	583,682
SAIC, Inc.*	16,904	207,750
Teradata Corp.*	10,139	491,843
Total System Services, Inc.	10,303	201,527
Visa, Inc. "A"	30,833	3,130,475
Western Union Co.	37,888	691,835
		26,794,529
Office Electronics 0.1%		
Xerox Corp.	84,583	**673,281**
Semiconductors & Semiconductor Equipment 2.3%		
Advanced Micro Devices, Inc.* (a)	36,689	198,121
Altera Corp.	19,488	723,005
Analog Devices, Inc.	17,970	642,967
Applied Materials, Inc.	79,245	848,714
Broadcom Corp. "A"*	29,678	871,346
First Solar, Inc.* (a)	3,515	118,666
Intel Corp. (a)	308,505	7,481,246
KLA-Tencor Corp.	10,050	484,913
Linear Technology Corp.	13,663	410,300
LSI Corp.*	35,451	210,933
Microchip Technology, Inc. (a)	11,356	415,970
Micron Technology, Inc.*	60,300	379,287
Novellus Systems, Inc.*	4,071	168,092
NVIDIA Corp.*	37,773	523,534
Teradyne, Inc.* (a)	11,515	156,949
Texas Instruments, Inc. (a)	69,503	2,023,232
Xilinx, Inc. (a)	15,657	501,963
		16,159,238

	Shares	Value ($)
Software 3.5%		
Adobe Systems, Inc.*	29,754	841,146
Autodesk, Inc.*	13,700	415,521
BMC Software, Inc.*	10,566	346,353
CA, Inc.	22,796	460,821
Citrix Systems, Inc.*	11,342	688,686
Electronic Arts, Inc.*	20,126	414,596
Intuit, Inc.	17,933	943,096
Microsoft Corp.	453,808	11,780,856
Oracle Corp.	238,704	6,122,758
Red Hat, Inc.*	11,623	479,914
Salesforce.com, Inc.* (a)	8,164	828,319
Symantec Corp.* (a)	45,128	706,253
		24,028,319
Materials 3.5%		
Chemicals 2.2%		
Air Products & Chemicals, Inc.	12,848	1,094,521
Airgas, Inc.	4,259	332,543
CF Industries Holdings, Inc.	3,942	571,511
Dow Chemical Co.	71,981	2,070,174
E.I. du Pont de Nemours & Co. (a)	56,208	2,573,202
Eastman Chemical Co.	8,474	330,994
Ecolab, Inc. (a)	18,077	1,045,031
FMC Corp.	4,263	366,788
International Flavors & Fragrances, Inc.	4,737	248,314
Monsanto Co.	32,515	2,278,326
PPG Industries, Inc.	9,263	773,368
Praxair, Inc.	18,209	1,946,542
Sigma-Aldrich Corp.	7,354	459,331
The Mosaic Co.	17,934	904,412
The Sherwin-Williams Co.	5,153	460,008
		15,455,065
Construction Materials 0.1%		
Vulcan Materials Co. (a)	7,653	**301,146**
Containers & Packaging 0.1%		
Ball Corp.	10,177	363,421
Bemis Co., Inc.	6,058	182,224
Owens-Illinois, Inc.*	10,500	203,490
Sealed Air Corp.	10,109	173,976
		923,111
Metals & Mining 0.9%		
Alcoa, Inc.	64,238	555,659
Allegheny Technologies, Inc.	6,600	315,480
Cliffs Natural Resources, Inc.	8,827	550,363
Freeport-McMoRan Copper & Gold, Inc.	57,668	2,121,606
Newmont Mining Corp.	30,096	1,806,061
Nucor Corp. (a)	19,117	756,460
Titanium Metals Corp.	4,728	70,825
United States Steel Corp. (a)	9,057	239,648
		6,416,102
Paper & Forest Products 0.2%		
International Paper Co.	26,392	781,203
MeadWestvaco Corp.	10,649	318,938
		1,100,141
Telecommunication Services 2.9%		
Diversified Telecommunication Services 2.8%		
AT&T, Inc.	359,431	10,869,193
CenturyLink, Inc.	37,229	1,384,919
Frontier Communications Corp. (a)	59,604	306,961

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

	Shares	Value ($)
Verizon Communications, Inc. (a)	171,816	6,893,258
Windstream Corp. (a)	35,977	422,370
		19,876,701
Wireless Telecommunication Services 0.1%		
MetroPCS Communications, Inc.*	16,760	145,477
Sprint Nextel Corp.* (a)	178,957	418,759
		564,236
Utilities 3.8%		
Electric Utilities 2.1%		
American Electric Power Co., Inc.	29,623	1,223,726
Duke Energy Corp. (a)	81,306	1,788,732
Edison International	19,688	815,083
Entergy Corp.	10,688	780,759
Exelon Corp.	39,947	1,732,502
FirstEnergy Corp.	25,231	1,117,733
NextEra Energy, Inc.	25,824	1,572,165
Northeast Utilities	10,661	384,542
Pepco Holdings, Inc.	13,324	270,477
Pinnacle West Capital Corp.	6,415	309,075
PPL Corp. (a)	34,896	1,026,640
Progress Energy, Inc.	18,153	1,016,931
Southern Co.	52,371	2,424,254
		14,462,619
Gas Utilities 0.1%		
AGL Resources, Inc.	7,028	297,003
ONEOK, Inc.	6,334	549,095
		846,098
Independent Power Producers & Energy Traders 0.2%		
AES Corp.*	38,934	460,978
Constellation Energy Group, Inc.	12,146	481,832
NRG Energy, Inc.*	13,515	244,892
		1,187,702
Multi-Utilities 1.4%		
Ameren Corp.	14,588	483,301
CenterPoint Energy, Inc.	25,713	516,574
CMS Energy Corp.	15,030	331,863
Consolidated Edison, Inc.	18,016	1,117,533
Dominion Resources, Inc.	34,690	1,841,345
DTE Energy Co.	10,249	558,058
Integrys Energy Group, Inc.	4,595	248,957
NiSource, Inc. (a)	16,777	399,460
PG&E Corp.	24,831	1,023,534
Public Service Enterprise Group, Inc.	30,533	1,007,894
SCANA Corp. (a)	7,219	325,288
Sempra Energy	14,442	794,310
TECO Energy, Inc.	12,560	240,398
Wisconsin Energy Corp. (a)	14,092	492,656
Xcel Energy, Inc.	29,250	808,470
		10,189,641
Total Common Stocks (Cost $623,801,464)		**690,164,344**

Preferred Stock 0.0%

Consumer Discretionary

	Shares	Value ($)
Specialty Retail		
Orchard Supply Hardware Stores Corp. Series A* (Cost $1,287)	109	**453**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.2%		
U.S. Treasury Obligation		
U.S. Treasury Bill, 0.015%**, 5/3/2012 (b) (Cost $1,159,917)	1,160,000	**1,159,903**

	Shares	Value ($)
Securities Lending Collateral 11.3%		
Daily Assets Fund Institutional, 0.18% (c) (d) (Cost $78,565,570)	78,565,570	**78,565,570**
Cash Equivalents 0.5%		
Central Cash Management Fund, 0.07% (c) (Cost $3,751,469)	3,751,469	**3,751,469**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $707,279,707)†	111.3	**773,641,739**
Other Assets and Liabilities, Net	(11.3)	**(78,394,439)**
Net Assets	100.0	**695,247,300**

* Non-income producing security.

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

† The cost for federal income tax purposes was $735,641,887. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $37,999,852. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $160,774,646 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $122,774,794.

(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, 2011 amounted to $76,083,857, which is 10.9% of net assets.

(b) At December 31, 2011, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

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

REIT: Real Estate Investment Trust

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

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
S&P 500 Index	USD	3/15/2012	20	6,263,000	**(13,813)**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stock and/or Other Equity Investments (e)	$ 690,163,891	$ —	$ 906	$ 690,164,797
Government & Agency Obligation	—	1,159,903	—	1,159,903
Short-Term Investments (e)	82,317,039	—	—	82,317,039
Total	**$ 772,480,930**	**$ 1,159,903**	**$ 906**	**$ 773,641,739**

Liabilities				
Derivatives (f)	$ (13,813)	$ —	$ —	$ (13,813)
Total	**$ (13,813)**	**$ —**	**$ —**	**$ (13,813)**

There have been no transfers in and out of Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(e) See Investment Portfolio for additional detailed categorizations.

(f) Derivatives include unrealized appreciation (depreciation) on open futures contracts.

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Common Stock and/or Other Equity Investments		
	Common Stocks	Preferred Stocks	Total
Balance as of December 31, 2010	$ —	$ —	$ —
Total realized gains (loss)	—	—	—
Change in unrealized appreciation (depreciation)	(834)	(834)	(1,668)
Amortization premium/discount	—	—	—
Purchases	1,287	1,287	2,574
(Sales)	—	—	—
Transfers into Level 3	—	—	—
Transfers (out) of Level 3	—	—	—
Balance as of December 31, 2011	**$ 453**	**$ 453**	**$ 906**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2011	**$ (834)**	**$ (834)**	**$ (1,668)**

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

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $624,962,668) — including $76,083,857 of securities loaned	$	691,324,700
Investment in Daily Assets Fund Institutional (cost $78,565,570)*		78,565,570
Investment in Central Cash Management Fund (cost $3,751,469)		3,751,469
Total investments in securities, at value (cost $707,279,707)		773,641,739
Cash		31,042
Receivable for investments sold		115,937
Receivable for Fund shares sold		14,050
Dividends receivable		1,043,963
Interest receivable		15,362
Other assets		16,295
Total assets		774,878,388

Liabilities		
Payable upon return of securities loaned		78,565,570
Payable for Fund shares redeemed		768,381
Payable for daily variation margin on futures contracts		24,001
Accrued management fee		117,737
Other accrued expenses and payables		155,399
Total liabilities		79,631,088
Net assets, at value	**$**	**695,247,300**

Net Assets Consist of		
Undistributed net investment income		12,722,907
Net unrealized appreciation (depreciation) on:		
Investments		66,362,032
Futures		(13,813)
Accumulated net realized gain (loss)		(31,247,600)
Paid-in capital		647,423,774
Net assets, at value	**$**	**695,247,300**
Class A		
Net Asset Value, offering and redemption price per share ($632,190,109 ÷ 47,896,105 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**13.20**
Class B		
Net Asset Value, offering and redemption price per share ($45,187,381 ÷ 3,425,349 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**13.19**
Class B2		
Net Asset Value, offering and redemption price per share ($17,869,810 ÷ 1,355,747 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**13.18**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Dividends	$	15,486,655
Interest		1,213
Income distributions — Central Cash Management Fund		7,282
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		78,249
Total income		15,573,399
Expenses:		
Management fee		1,502,327
Administration fee		751,164
Custodian fee		25,729
Distribution service fees (Class B and Class B2)		171,051
Record keeping fee (Class B2)		28,648
Services to shareholders		6,592
Professional fees		92,460
Trustees' fees and expenses		22,192
Reports to shareholders		53,460
Other		47,771
Total expenses		2,701,394
Net investment income (loss)		**12,872,005**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		8,601,162
Futures		657,879
		9,259,041
Change in net unrealized appreciation (depreciation) on:		
Investments		(9,567,434)
Futures		(342,906)
		(9,910,340)
Net gain (loss)		**(651,299)**
Net increase (decrease) in net assets resulting from operations	**$**	**12,220,706**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 12,872,005	$ 12,547,750
Net realized gain (loss)	9,259,041	11,576,199
Change in net unrealized appreciation (depreciation)	(9,910,340)	78,148,670
Net increase (decrease) in net assets resulting from operations	12,220,706	102,272,619
Distributions to shareholders from:		
Net investment income:		
Class A	(11,499,201)	(12,705,478)
Class B	(693,566)	(822,134)
Class B2	(248,318)	(300,774)
Total distributions	(12,441,085)	(13,828,386)
Fund share transactions:		
Class A		
Proceeds from shares sold	56,585,657	34,225,993
Reinvestment of distributions	11,499,201	12,705,478
Payments for shares redeemed	(134,765,778)	(105,618,602)
Net increase (decrease) in net assets from Class A share transactions	(66,680,920)	(58,687,131)
Class B		
Proceeds from shares sold	4,009,341	3,731,491
Reinvestment of distributions	693,566	822,134
Payments for shares redeemed	(13,195,180)	(6,731,217)
Net increase (decrease) in net assets from Class B share transactions	(8,492,273)	(2,177,592)
Class B2		
Proceeds from shares sold	179,271	559,322
Reinvestment of distributions	248,318	300,774
Cost of shares redeemed	(2,894,605)	(3,426,496)
Net increase (decrease) in net assets from Class B2 share transactions	(2,467,016)	(2,566,400)
Increase (decrease) in net assets	(77,860,588)	25,013,110
Net assets at beginning of period	773,107,888	748,094,778
Net assets at end of period (including undistributed net investment income of $12,722,907 and $12,292,276, respectively)	**$ 695,247,300**	**$ 773,107,888**

Increase (Decrease) in Net Assets	Years Ended December 31, 2011	2010
Class A		
Shares outstanding at beginning of period	53,096,781	58,025,792
Shares sold	4,228,529	2,918,830
Shares issued to shareholders in reinvestment of distributions	819,032	1,017,252
Shares redeemed	(10,248,237)	(8,865,093)
Net increase (decrease) in Class A shares	(5,200,676)	(4,929,011)
Shares outstanding at end of period	**47,896,105**	**53,096,781**
Class B		
Shares outstanding at beginning of period	4,060,194	4,245,476
Shares sold	300,443	314,546
Shares issued to shareholders in reinvestment of distributions	49,329	65,771
Shares redeemed	(984,617)	(565,599)
Net increase (decrease) in Class B shares	(634,845)	(185,282)
Shares outstanding at end of period	**3,425,349**	**4,060,194**
Class B2		
Shares outstanding at beginning of period	1,536,957	1,758,162
Shares sold	13,661	46,908
Shares issued to shareholders in reinvestment of distributions	17,661	24,042
Shares redeemed	(212,532)	(292,155)
Net increase (decrease) in Class B2 shares	(181,210)	(221,205)
Shares outstanding at end of period	**1,355,747**	**1,536,957**

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

Financial Highlights

Class A

	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$13.17**	**$11.68**	**$ 9.55**	**$15.53**	**$14.97**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.23	.21	.21	.27	.27
Net realized and unrealized gain (loss)	.03	1.51	2.20	(5.93)	.52
Total from investment operations	.26	1.72	2.41	(5.66)	.79
Less distributions from:					
Net investment income	(.23)	(.23)	(.28)	(.32)	(.23)
Net asset value, end of period	**$13.20**	**$13.17**	**$11.68**	**$ 9.55**	**$15.53**
Total Return (%)	1.83	14.70	26.32[b]	(37.15)[b]	5.30[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	632	699	678	584	1,046
Ratio of expenses before expense reductions (%)	.33	.33	.34	.33	.33
Ratio of expenses after expense reductions (%)	.33	.33	.32	.28	.30
Ratio of net investment income (loss) (%)	1.74	1.74	2.10	2.07	1.71
Portfolio turnover rate (%)	6	5	8	6	7[c]

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, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$13.17**	**$11.68**	**$ 9.54**	**$15.52**	**$14.96**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.20	.18	.18	.24	.23
Net realized and unrealized gain (loss)	.01	1.51	2.22	(5.94)	.52
Total from investment operations	.21	1.69	2.40	(5.70)	.75
Less distributions from:					
Net investment income	(.19)	(.20)	(.26)	(.28)	(.19)
Net asset value, end of period	**$13.19**	**$13.17**	**$11.68**	**$ 9.54**	**$15.52**
Total Return (%)	1.50	14.52	26.03[b]	(37.34)[b]	5.03[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	45	53	50	40	65
Ratio of expenses before expense reductions (%)	.58	.58	.59	.58	.58
Ratio of expenses after expense reductions (%)	.58	.58	.57	.53	.55
Ratio of net investment income (loss) (%)	1.49	1.49	1.85	1.82	1.46
Portfolio turnover rate (%)	6	5	8	6	7[c]

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, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$13.15**	**$11.67**	**$ 9.54**	**$15.51**	**$14.96**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.18	.16	.17	.22	.21
Net realized and unrealized gain (loss)	.02	1.50	2.21	(5.93)	.52
Total from investment operations	.20	1.66	2.38	(5.71)	.73
Less distributions from:					
Net investment income	(.17)	(.18)	(.25)	(.26)	(.18)
Net asset value, end of period	**$13.18**	**$13.15**	**$11.67**	**$ 9.54**	**$15.51**
Total Return (%)	1.43	14.29	25.79[b]	(37.36)[b]	4.85[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	18	20	21	19	48
Ratio of expenses before expense reductions (%)	.73	.73	.74	.72	.72
Ratio of expenses after expense reductions (%)	.73	.73	.70	.63	.65
Ratio of net investment income (loss) (%)	1.34	1.34	1.72	1.72	1.36
Portfolio turnover rate (%)	6	5	8	6	7[c]

[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.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

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

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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 at prices supplied by independent pricing services approved by the Fund's Board. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from one or more broker-dealers. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market

in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Federal Income Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $2,055,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first.

In addition, from November 1, 2011 to December 31, 2011, the Fund elects to defer qualified late year losses of approximately $714,000 of net realized long-term capital losses and $129,000 of net realized short-term capital losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings (accumulated gains) on a tax basis were as follows:

Undistributed ordinary income	$ 12,721,699
Capital loss carryforwards	$ (2,055,000)
Unrealized appreciation (depreciation) on investments	$ 37,999,852

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

	Years Ended December 31, 2011	2010
Distributions from ordinary income	$ 12,441,085	$ 13,828,386

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

Expenses. Expenses of the Trust arising in connection with a specific Fund are allocated to that Fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset valuation calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Derivative Instruments

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund invested in futures to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default. Upon a futures contract close out or expiration, realized gain or loss is recognized.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $5,067,000 to $14,142,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Liability Derivative	**Futures Contracts**
Equity Contracts (a)	$ (13,813)

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Futures Contracts
Equity Contracts (a)	$ 657,879

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

(a) Net realized gain (loss) from futures

Change in Net Unrealized Appreciation (Depreciation)	Futures Contracts
Equity Contracts (a)	$ (342,906)

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

(a) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment securities (excluding short-term investments) aggregated $47,083,630 and $117,686,585, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold, or entered into by the Fund or delegates such responsibility to the Fund's sub-advisor. Northern Trust Investments, Inc. ("NTI") acts as investment sub-advisor for the Fund and is paid by the Advisor for its services. As investment sub-advisor to the Fund, NTI makes investment decisions and buys and sells securities for the Fund.

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

First $1 billion of the Fund's average daily net assets	.200%
Next $1 billion of such net assets	.175%
Over $2 billion of such net assets	.150%

Accordingly, for the year ended December 31, 2011, the fee pursuant to the management agreement was equivalent to an annual effective rate of 0.20% of the Fund's average daily net assets.

Administration Fee. Pursuant to the Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $751,164, of which $58,868 is unpaid.

Distribution Service Agreement. DWS Investments Distributors, Inc. ("DIDI"), an affiliate of the Advisor, is the Fund'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, 2011, the Distribution Service Fees were as follows:

Distribution Service Fees	Total Aggregated	Unpaid at December 31, 2011
Class B	$ 123,304	$ 9,529
Class B2	47,747	3,780
	$ 171,051	**$ 13,309**

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 Fund. 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 Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2011
Class A	$ 571	$ 143
Class B	81	20
Class B2	41	10
	$ 693	**$ 173**

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $22,785, of which $5,296 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Effective July 14, 2011, Deutsche Bank AG serves as securities lending agent for the Fund. For the period from July 14, 2011 through December 31, 2011, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $7,776.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

F. Ownership of the Fund

At December 31, 2011, two participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 61% and 11%, respectively. At December 31, 2011, one participating insurance company was a beneficial owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 88%. At December 31, 2011, one participating insurance company was a beneficial owner of record of 100% of the total outstanding Class B2 shares of the Fund.

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 "Fund") at December 31, 2011, and the results of its operations, the changes in its 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 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, 2011 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts PricewaterhouseCoopers LLP
February 15, 2012

Information About Your Fund's Expenses

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	Class A	Class B	Class B2
Beginning Account Value 7/1/11	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 962.10	$ 960.70	$ 959.90
Expenses Paid per $1,000*	$ 1.68	$ 2.92	$ 3.66

Hypothetical 5% Fund Return	Class A	Class B	Class B2
Beginning Account Value 7/1/11	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,023.49	$1,022.23	$1,021.48
Expenses Paid per $1,000*	$ 1.73	$ 3.01	$ 3.77

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

Annualized Expense Ratios	Class A	Class B	Class B2
DWS Equity 500 Index VIP	.34%	.59%	.74%

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

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

Tax Information

(Unaudited)

For corporate shareholders, 100% of the income dividends paid during the Fund's fiscal year ended December 31, 2011 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 contact your insurance provider.

Proxy Voting

The Fund's policies and procedures for voting proxies for portfolio securities and information about how the Fund voted proxies related to its portfolio securities during the 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 Fund's policies and procedures without charge, upon request, call us toll free at (800) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Equity 500 Index VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DWS and Northern Trust Investments, Inc. ("NTI") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreements were approved by the Fund's shareholders. DWS 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 DWS'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, DWS and NTI provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. The Board also requested and received information regarding DWS's oversight of Fund sub-advisors, including NTI. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 2nd 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).

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 DWS 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 a 0.10% fee paid to DWS 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, 2010). With respect to the sub-advisory fee paid to NTI, the Board noted that the fee is paid by DWS 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 (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2010) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS and NTI.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available. The Board did not consider the profitability of NTI with respect to the Fund. The Board noted that DWS pays NTI's fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DWS.

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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and NTI and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and NTI and their affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS and NTI related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DWS and NTI related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DWS to the oversight of the investment sub-advisor's compliance program and compliance with the applicable fund policies and procedures.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

vit-equ500-2 (R-025817 -1 2/12)

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES I

DWS Bond VIP

INVESTMENTS

Deutsche Bank Group

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

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. See the prospectus for details.

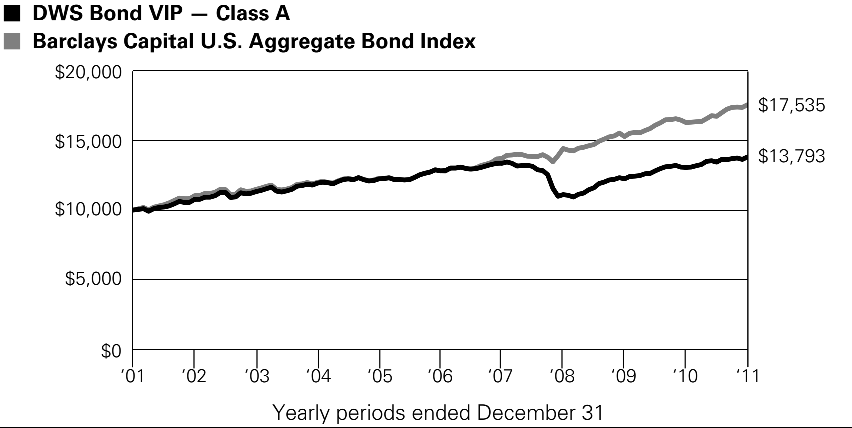
Performance Summary

December 31, 2011

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 is 0.59% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment



The Barclays Capital U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with an average maturity of one year or more.

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

Comparative Results

DWS Bond VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,568	$12,422	$10,771	$13,793
	Average annual total return	5.68%	7.50%	1.50%	3.27%
Barclays Capital U.S. Aggregate Bond Index	Growth of $10,000	$10,784	$12,171	$13,701	$17,535
	Average annual total return	7.84%	6.77%	6.50%	5.78%

The growth of $10,000 is cumulative.

Management Summary

During the 12-month period ended December 31, 2011, the U.S. Federal Reserve Board (the Fed) maintained the benchmark federal funds rate at near-zero levels and continued to engage in bond purchases designed to lower longer-term interest rates as it sought to stimulate economic growth. U.S. Treasury yields fell from already historically low levels for the 12 months, as for much of the year investors sought a refuge from the debt crisis in Europe. Most sectors of the bond market benefited from the declining rate environment, with high-quality corporate bonds benefiting in particular, as investors sought yields in an environment of extraordinarily low interest rates. Somewhat counterintuitive, a historic credit downgrade of U.S. debt was met by markets as a further reason to seek a "safe haven" in U.S. Treasuries.[1] Corporate bonds continued to be supported by strong profits and balance sheets over the period.

During the 12-month period ended December 31, 2011, the Fund provided a total return of 5.68% (Class A shares, unadjusted for contract charges), compared with the 7.84% return of its benchmark, the Barclays Capital U.S. Aggregate Bond Index.[2]

The Fund's performance vs. the benchmark continued to be driven principally by exposure to more credit-sensitive fixed-income sectors. Our overweighting of investment-grade corporate bonds was the leading positive contributor to returns during the year.[3] While our high-yield corporate and emerging-markets holdings benefitted from improved market sentiment during the fourth quarter, they lagged over the course of the year and ultimately detracted from relative performance. Performance also benefitted from short positions in the euro and the Australian dollar, as well as yield curve positioning.[4,5] Performance over the year was constrained by short positions in German bunds (Germany government bonds), long positions in residential mortgage-backed securities and short positions in the Japanese yen.[6] We continue to view credit sectors as attractive on a relative basis, especially in the new issue market. In our view, corporate fundamentals are strong, interest rates are low and debt markets are liquid. However, we continue to expect that the timetable for resolving the debt issues in Europe will be protracted and that credit markets will be jittery along the way. In addition, there is still some risk of a global recession as developed-market governments wrestle with the need to bring budgets into better balance. We will continue to monitor indicators including housing, consumer spending and job growth to determine the strength of the economic recovery and the ability to support corporate profitability on a sustainable basis.

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

1 Credit quality measures 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. Credit quality does not remove market risk and is subject to change.

2 The Barclays Capital U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with an average maturity of one year or more.

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

3 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

4 The yield curve is a graphical representation of how yields on bonds of different maturities compare. Normally, yield curves slant up, as bonds with longer maturities typically offer higher yields than short-term bonds.

5 "Short position" refers to borrowing a security and then selling it with expectation that the security will fall in value. The security can then be purchased and repaid to the borrower at a lower price.

6 "Long position" refers to buying a security with the expectation that it will rise in value.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Mortgage-Backed Securities Pass-Throughs	33%	28%
Government & Agency Obligations	29%	21%
Corporate Bonds	21%	31%
Commercial Mortgage-Backed Securities	6%	9%
Municipal Bonds and Notes	5%	5%
Collateralized Mortgage Obligations	3%	4%
Asset-Backed	2%	—
Cash Equivalents	1%	2%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/11**	**12/31/10**
AAA	64%	56%
AA	5%	5%
A	7%	7%
BBB	15%	19%
BB or Below	7%	10%
Not Rated	2%	3%
	100%	100%

Interest Rate Sensitivity	**12/31/11**	**12/31/10**
Effective Maturity	6.9 years	7.3 years
Effective Duration	4.9 years	4.9 years

Effective maturity is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

Asset allocation, quality and interest rate sensitivity are subject to change.

The quality ratings represent the higher 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. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2011

		Principal Amount ($)(a)	Value ($)
Corporate Bonds 27.5%			
Consumer Discretionary 7.1%			
AMC Entertainment, Inc., 8.75%, 6/1/2019		900,000	931,500
CCO Holdings LLC, 6.5%, 4/30/2021		420,000	425,250
DIRECTV Holdings LLC, 6.35%, 3/15/2040		315,000	358,350
JC Penney Co., Inc., 5.65%, 6/1/2020		785,000	769,300
Johnson Controls, Inc., 3.75%, 12/1/2021		300,000	309,759
Levi Strauss & Co., 7.625%, 5/15/2020 (b)		600,000	612,750
MGM Resorts International, 9.0%, 3/15/2020		550,000	609,125
NBCUniversal Media LLC:			
5.15%, 4/30/2020		500,000	556,688
5.95%, 4/1/2041		350,000	411,395
Norcraft Companies LP, 10.5%, 12/15/2015		100,000	93,250
Royal Caribbean Cruises Ltd., 7.25%, 6/15/2016		750,000	806,250
Time Warner Cable, Inc.:			
4.0%, 9/1/2021		300,000	303,518
7.3%, 7/1/2038		40,000	48,606
Time Warner, Inc., 7.625%, 4/15/2031		400,000	516,353
Viacom, Inc., 2.5%, 12/15/2016		730,000	729,723
Yum! Brands, Inc., 3.875%, 11/1/2020		465,000	475,531
			7,957,348
Consumer Staples 2.1%			
Anheuser-Busch InBev Worldwide, Inc., 7.75%, 1/15/2019		750,000	971,369
CVS Caremark Corp., 5.75%, 5/15/2041		120,000	142,888
Kraft Foods, Inc., 5.375%, 2/10/2020		725,000	836,542
Kroger Co., 5.4%, 7/15/2040		375,000	404,006
			2,354,805
Energy 3.5%			
DCP Midstream LLC, 144A, 9.75%, 3/15/2019		480,000	625,723
Encana Corp., 5.15%, 11/15/2041		116,000	118,422
Enterprise Products Operating LLC, 6.125%, 10/15/2039		460,000	513,805
ONEOK Partners LP, 6.15%, 10/1/2016		557,000	639,608
Plains All American Pipeline LP, 8.75%, 5/1/2019		450,000	574,872
Reliance Holdings U.S.A., Inc., 144A, 4.5%, 10/19/2020		650,000	590,592
Weatherford International Ltd., 5.125%, 9/15/2020		700,000	727,424
Williams Partners LP, 4.0%, 11/15/2021		112,000	115,004
			3,905,450
Financials 6.2%			
American Express Credit Corp., 2.8%, 9/19/2016		1,000,000	1,004,900
Bank of America Corp., 5.75%, 12/1/2017		360,000	340,028
Bank of New York Mellon Corp., 2.4%, 1/17/2017		675,000	673,475
Bunge Ltd. Finance Corp., 4.1%, 3/15/2016		145,000	150,151
Citigroup, Inc., 4.5%, 1/14/2022		250,000	240,506
CNA Financial Corp., 5.75%, 8/15/2021		598,000	610,215
Ford Motor Credit Co., LLC, 7.0%, 4/15/2015		925,000	994,375
JPMorgan Chase & Co., 5.125%, 9/15/2014		600,000	632,581
Lincoln National Corp., 8.75%, 7/1/2019		325,000	395,317
Nationwide Financial Services, Inc., 144A, 5.375%, 3/25/2021		227,000	222,970
Nordea Bank AB, 144A, 4.875%, 5/13/2021		440,000	371,891
PNC Bank NA, 6.875%, 4/1/2018		200,000	226,825
Prudential Financial, Inc., 7.375%, 6/15/2019		120,000	141,847
Red Arrow International Leasing PLC, "A", 8.375%, 6/30/2012	RUB	451,113	13,658
SunTrust Banks, Inc., 3.6%, 4/15/2016		185,000	188,392
The Goldman Sachs Group, Inc., 6.0%, 6/15/2020		500,000	512,181
Toll Brothers Finance Corp., 8.91%, 10/15/2017		200,000	230,489
			6,949,801
Health Care 2.9%			
Amgen, Inc., 5.15%, 11/15/2041		300,000	311,005
Express Scripts, Inc., 7.25%, 6/15/2019		720,000	858,002
Gilead Sciences, Inc., 4.4%, 12/1/2021		225,000	238,206
McKesson Corp., 4.75%, 3/1/2021		475,000	538,148
Quest Diagnostics, Inc.:			
4.7%, 4/1/2021		650,000	692,952
6.4%, 7/1/2017		500,000	591,370
			3,229,683
Industrials 0.5%			
Burlington Northern Santa Fe LLC, 3.45%, 9/15/2021		82,000	84,516
CSX Corp., 6.15%, 5/1/2037		400,000	481,020
			565,536
Information Technology 1.7%			
Applied Materials, Inc., 5.85%, 6/15/2041		500,000	569,861
Equinix, Inc., 7.0%, 7/15/2021		850,000	896,750
Hewlett-Packard Co., 3.3%, 12/9/2016		415,000	423,758
			1,890,369

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

	Principal Amount ($)(a)	Value ($)
Materials 2.1%		
ArcelorMittal, 6.125%, 6/1/2018	500,000	493,781
Corporacion Nacional del Cobre — Codelco, REG S, 7.5%, 1/15/2019	600,000	764,181
Dow Chemical Co.:		
4.25%, 11/15/2020	455,000	472,945
5.25%, 11/15/2041	100,000	105,187
Ecolab, Inc.:		
4.35%, 12/8/2021	350,000	373,761
5.5%, 12/8/2041	78,000	86,435
		2,296,290
Telecommunication Services 0.1%		
AT&T, Inc., 3.875%, 8/15/2021	125,000	**132,219**
Utilities 1.3%		
DTE Energy Co., 7.625%, 5/15/2014	152,000	172,730
Energy Future Competitive Holdings Co., 7.48%, 1/1/2017	24,287	21,560
FirstEnergy Solutions Corp., 6.8%, 8/15/2039	367,000	410,953
Majapahit Holding BV, REG S, 7.75%, 10/17/2016	100,000	112,250
Sempra Energy, 6.5%, 6/1/2016	650,000	758,226
		1,475,719
Total Corporate Bonds (Cost $29,249,980)		**30,757,220**

Mortgage-Backed Securities Pass-Throughs 41.9%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
4.5%, 6/1/2041	2,607,348	2,761,752
5.491%*, 2/1/2038	334,941	364,563
5.5%, with various maturities from 10/1/2023 until 8/1/2024	284,197	309,075
6.5%, 3/1/2026	591,893	661,799
7.0%, 1/1/2038	86,417	96,693
Federal National Mortgage Association:		
2.458%*, 8/1/2037	109,565	116,687
3.0%, 6/1/2026 (c)	5,725,000	5,911,957
3.5%, 12/1/2040 (c)	5,500,000	5,657,266
4.0%, with various maturities from 2/1/2040 until 9/1/2040 (c)	22,864,712	24,020,143
5.0%, with various maturities from 2/1/2021 until 8/1/2040	2,755,054	2,975,098
5.108%*, 9/1/2038	110,061	115,455
5.359%*, 1/1/2038	362,458	386,018
5.5%, with various maturities from 12/1/2032 until 4/1/2037	1,933,870	2,102,693
6.0%, with various maturities from 4/1/2024 until 3/1/2025	608,908	679,889
6.5%, with various maturities from 3/1/2017 until 12/1/2037	689,389	766,406
8.0%, 9/1/2015	10,723	11,516
Total Mortgage-Backed Securities Pass-Throughs (Cost $46,149,580)		**46,937,010**

Asset-Backed 3.0%

	Principal Amount ($)(a)	Value ($)
Credit Card Receivables 1.0%		
Citibank Omni Master Trust, "A14", Series 2009-A14A, 144A, 3.028%*, 8/15/2018	1,000,000	**1,049,006**
Student Loans 2.0%		
Nelnet Student Loan Trust:		
"A1", Series 2007-1, 0.516%*, 11/27/2018	932,759	919,760
"A4", Series 2006-1, 0.585%*, 11/23/2022	1,375,000	1,355,665
		2,275,425
Total Asset-Backed (Cost $3,325,707)		**3,324,431**

Commercial Mortgage-Backed Securities 7.3%

	Principal Amount ($)(a)	Value ($)
Banc of America Commercial Mortgage, Inc., "A4", Series 2007-1, 5.451%, 1/15/2049	1,660,000	1,803,504
Bear Stearns Commercial Mortgage Securities, Inc., "A4", Series 2007-PW16, 5.715%*, 6/11/2040	140,000	153,273
Greenwich Capital Commercial Funding Corp., "A4", Series 2007-GG9, 5.444%, 3/10/2039	1,140,000	1,233,920
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"A4", Series 2007-C1, 5.716%, 2/15/2051	475,000	514,204
"F", Series 2007-LD11, 5.817%*, 6/15/2049	650,000	72,246
"G", Series 2007-LD11, 144A, 5.817%*, 6/15/2049	760,000	52,820
"H", Series 2007-LD11, 144A, 5.817%*, 6/15/2049	460,000	22,448
"A4", Series 2007-LD12, 5.882%, 2/15/2051	990,000	1,075,255
LB-UBS Commercial Mortgage Trust:		
"E", Series 2005-C2, 5.35%*, 4/15/2040	500,000	278,393
"A4", Series 2007-C6, 5.858%, 7/15/2040	915,000	1,002,288
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 5.834%*, 6/12/2050	590,000	633,065
Morgan Stanley Reremic Trust, "A4A", Series 2009-GG10, 144A, 5.79%*, 8/12/2045	1,150,000	1,289,311
Wachovia Bank Commercial Mortgage Trust, "H", Series 2007-C32, 144A, 5.74%*, 6/15/2049	770,000	31,031
Total Commercial Mortgage-Backed Securities (Cost $10,376,911)		**8,161,758**

Collateralized Mortgage Obligations 4.2%

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	552,197	419,458
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	153,330	91,367

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

		Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp., "PE", Series 2898, 5.0%, 5/15/2033		335,000	358,525
Federal National Mortgage Association:			
"IO", Series 2010-143, Interest Only, 5.0%, 12/25/2025		4,462,393	540,359
"EG", Series 2005-22, 5.0%, 11/25/2033		750,000	810,055
"TC", Series 2007-77, 5.5%, 9/25/2034		370,000	394,242
Government National Mortgage Association:			
"IU", Series 2010-164, Interest Only, 2.0%, 12/20/2013		2,592,743	69,969
"MI", Series 2010-85, Interest Only, 4.5%, 1/20/2036		1,780,708	188,357
"GI", Series 2010-89, Interest Only, 4.5%, 5/20/2039		1,223,535	197,610
"EI", Series 2010-134, Interest Only, 4.5%, 11/20/2039		639,304	101,340
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040		3,289,647	433,968
"IM", Series 2010-87, Interest Only, 4.75%, 3/20/2036		1,756,616	204,816
"IA", Series 2010-58, Interest Only, 5.0%, 3/20/2039		2,267,536	376,618
"KI", Series 2010-130, Interest Only, 5.5%, 9/16/2040		388,925	64,063
MASTR Alternative Loans Trust, "8A1", Series 2004-3, 7.0%, 4/25/2034		11,421	11,438
Vericrest Opportunity Loan Transferee, "B1", Series 2010-NPL1, 144A, 8.0%, 5/25/2039		505,338	469,696
Total Collateralized Mortgage Obligations (Cost $5,123,946)			**4,731,881**

Government & Agency Obligations 36.5%

Sovereign Bonds 8.1%

		Principal Amount ($)(a)	Value ($)
Dominican Republic, REG S, 7.5%, 5/6/2021		800,000	784,000
Eskom Holdings SOC Ltd., REG S, 5.75%, 1/26/2021		400,000	407,000
Republic of Argentina, GDP Linked Note, 12/15/2035 (d)		410,000	51,426
Republic of Croatia, REG S, 6.75%, 11/5/2019		550,000	522,500
Republic of Egypt, 9.1%, 9/20/2012	EGP	230,000	37,540
Republic of El Salvador, REG S, 8.25%, 4/10/2032		40,000	43,400
Republic of Indonesia, REG S, 4.875%, 5/5/2021		800,000	856,000
Republic of Lithuania:			
REG S, 5.125%, 9/14/2017		200,000	196,000
144A, 6.125%, 3/9/2021		225,000	223,875
Republic of Panama:			
5.2%, 1/30/2020		425,000	481,312
7.125%, 1/29/2026		220,000	286,550
7.25%, 3/15/2015		80,000	92,400
Republic of Peru, 7.35%, 7/21/2025		1,000,000	1,325,000
Republic of Poland, 5.0%, 3/23/2022		700,000	703,500
Republic of Serbia:			
REG S, 6.75%, 11/1/2024		446,333	421,785
REG S, 7.25%, 9/28/2021		300,000	292,035
Republic of South Africa, 5.5%, 3/9/2020		750,000	840,000
Republic of Venezuela, REG S, 7.75%, 10/13/2019		1,000,000	715,000
Russian Federation, REG S, 5.0%, 4/29/2020		800,000	825,320
			9,104,643

U.S. Treasury Obligations 28.4%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bonds:		
3.75%, 8/15/2041 (b)	2,000,000	2,352,188
4.75%, 2/15/2037	2,000,000	2,716,562
5.375%, 2/15/2031	1,000,000	1,425,312
7.125%, 2/15/2023 (b)	3,400,000	5,141,970
U.S. Treasury Inflation-Indexed Note, 0.625%, 7/15/2021	2,762,843	2,955,595
U.S. Treasury Notes:		
0.5%, 10/15/2013 (b)	1,000,000	1,004,336
0.875%, 1/31/2012	1,000,000	1,000,625
1.0%, 8/31/2016	11,000,000	11,120,318
1.5%, 7/31/2016	1,250,000	1,292,285
2.0%, 11/15/2021 (b)	2,700,000	2,730,796
		31,739,987
Total Government & Agency Obligations (Cost $39,068,924)		**40,844,630**

Loan Participations and Assignments 0.3%

Sovereign Loans

	Principal Amount ($)(a)	Value ($)
Gazprom, 144A, 8.125%, 7/31/2014	205,000	221,400
Russian Agricultural Bank, REG S, 7.75%, 5/29/2018	100,000	106,500
Total Loan Participations and Assignments (Cost $302,977)		**327,900**

Municipal Bonds and Notes 6.8%

	Principal Amount ($)(a)	Value ($)
California, University Revenues, Build America Bonds, 5.946%, 5/15/2045 (f)	420,000	489,413
Gwinnett County, GA, Development Authority Revenue, Gwinnett Stadium Project, 6.4%, 1/1/2028 (f)	655,000	750,938
Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013 (f)	260,000	259,464
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (f)	1,300,000	1,334,827

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

	Principal Amount ($)(a)	Value ($)
Los Angeles, CA, Community Development Agency Tax Allocation Revenue, Adelante Eastside Project, Series C, 6.49%, 9/1/2037, INS: Radian (f)	310,000	292,290
Louisville & Jefferson County, KY, Metropolitan Sewer District & Drain Systems, Build America Bonds, 6.25%, 5/15/2043 (f)	400,000	501,952
Nashville & Davidson County, TN, Metropolitan Government, Convention Center Authority Revenue, Build America Bonds, Series B, 6.731%, 7/1/2043 (f)	400,000	482,000
New Jersey, Economic Development Authority Revenue, Series B, 6.5%, 11/1/2013, INS: AGC (f)	860,000	934,880
Port Authority New York & New Jersey, One Hundred Fiftieth Series, 4.75%, 9/15/2016 (f)	930,000	1,055,550
Rhode Island, Convention Center Authority Revenue, Civic Center, Series A, 6.06%, 5/15/2035, INS: AGMC (f)	515,000	574,931
Virgin Islands, Port Authority Marine Revenue, Series B, 5.08%, 9/1/2013, INS: AGMC (f)	610,000	618,101
Washington, Central Puget Sound Regional Transit Authority, Sales & Use Tax Revenue, Series A, 5.0%, 11/1/2036	285,000	303,428
Total Municipal Bonds and Notes (Cost $6,935,693)		**7,597,774**

	Principal Amount ($)(a)	Value ($)
Short-Term U.S. Treasury Obligation 1.0%		
U.S. Treasury Bill, 0.015%**, 3/8/2012 (e) (Cost $1,121,971)	1,122,000	**1,121,964**

	Shares	Value ($)
Securities Lending Collateral 10.1%		
Daily Assets Fund Institutional, 0.18% (g) (h) (Cost $11,307,660)	11,307,660	**11,307,660**
Cash Equivalents 1.3%		
Central Cash Management Fund, 0.07% (g) (Cost $1,438,901)	1,438,901	**1,438,901**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $154,402,250)†	139.9	**156,551,129**
Other Assets and Liabilities, Net	(39.9)	**(44,615,310)**
Net Assets	100.0	**111,935,819**

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2011.

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

† The cost for federal income tax purposes was $154,402,250. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $2,148,879. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $5,333,197 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,184,318.

(a) Principal amount stated in U.S. 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, 2011 amounted to $10,983,329, which is 9.8% of net assets.

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

(d) Security is linked to Argentine Republic Gross Domestic Product (GDP). Security does not pay principal over life of security or at expiration. Payments are based on growth of Argentina GDP, subject to certain conditions.

(e) At December 31, 2011, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) Taxable issue.

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

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

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

AGC: Assured Guaranty Corp.

AGMC: Assured Guaranty Municipal Corp.

GDP: Gross Domestic Product

INS: Insured

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.

Radian: Radian Asset Assurance, Inc.

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

Included in the Fund are investments in mortgage- or asset-backed securities, which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal Home Loan Mortgage Corp. and Federal National Mortgage Association issues have similar coupon rates and have been aggregated for presentation purposes in the investment portfolio.

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

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year Canadian Government Bond	CAD	3/21/2012	67	8,802,238	94,461
United Kingdom Long Gilt Bond	GBP	3/28/2012	17	3,087,597	43,531
Total unrealized appreciation					**137,992**

At December 31, 2011, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year U.S. Treasury Note	USD	3/21/2012	280	36,715,000	(322,093)
30 Year U.S. Treasury Bond	USD	3/21/2012	46	6,661,375	(50,073)
Euro Currency	USD	3/19/2012	7	1,134,700	21,099
Federal Republic of Germany Euro-Bund	EUR	3/8/2012	26	4,678,767	(82,827)
Total net unrealized depreciation					**(433,894)**

As of December 31, 2011, the Fund had the following open forward currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
RUB	800,000	USD	25,827	1/19/2012	1,055	JPMorgan Chase Securities, Inc.
USD	2,202,816	CNY	14,000,000	1/19/2012	20,406	HSBC Bank U.S.A.
Total unrealized appreciation					**21,461**	

Currency Abbreviations

CAD	Canadian Dollar	EGP	Egyptian Pound	GBP	British Pound	USD	United States Dollar
CNY	Chinese Yuan	EUR	Euro	RUB	Russian Ruble		

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (i)				
Corporate Bonds	$ —	$ 30,757,220	$ —	$ 30,757,220
Mortgage-Backed Securities Pass-Throughs	—	46,937,010	—	46,937,010
Asset-Backed	—	3,324,431	—	3,324,431
Commercial Mortgage-Backed Securities	—	8,161,758	—	8,161,758
Collateralized Mortgage Obligations	—	4,731,881	—	4,731,881
Government & Agency Obligations	—	40,844,630	—	40,844,630
Loan Participations and Assignments	—	327,900	—	327,900
Municipal Bonds and Notes	—	7,597,774	—	7,597,774
Short-Term U.S. Treasury Obligation	—	1,121,964	—	1,121,964
Short-Term Investments (i)	12,746,561	—	—	12,746,561
Derivatives (j)	159,091	21,461	—	180,552
Total	**$ 12,905,652**	**$ 143,826,029**	**$ —**	**$ 156,731,681**
Liabilities				
Derivatives (j)	$ (454,993)	$ —	$ —	$ (454,993)
Total	**$ (454,993)**	**$ —**	**$ —**	**$ (454,993)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(i) See Investment Portfolio for additional detailed categorizations.

(j) Derivatives include unrealized appreciation (depreciation) on open futures contracts and forward foreign currency exchange contracts.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $141,655,689) — including $10,983,329 of securities loaned	$	143,804,568
Investment in Daily Assets Fund Institutional (cost $11,307,660)*		11,307,660
Investment in Central Cash Management Fund (cost $1,438,901)		1,438,901
Total investments, at value (cost $154,402,250)		156,551,129
Foreign currency, at value (cost $72,839)		68,949
Receivable for Fund shares sold		77,287
Interest receivable		1,104,620
Unrealized appreciation on forward foreign currency exchange contracts		21,461
Foreign taxes recoverable		2,315
Other assets		2,244
Total assets		157,828,005

Liabilities		
Payable upon return of securities loaned		11,307,660
Payable for investments purchased — when-issued/delayed delivery securities		34,365,907
Payable for Fund shares redeemed		28,002
Payable for daily variation margin on futures contracts		60,398
Accrued management fee		37,103
Accrued expenses		93,116
Total liabilities		45,892,186
Net assets, at value	**$**	**111,935,819**

Net Assets Consist of		
Undistributed net investment income		4,694,271
Net unrealized appreciation (depreciation) on:		
Investments		2,148,879
Futures		(295,902)
Foreign currency		17,408
Accumulated net realized gain (loss)		(37,300,113)
Paid-in capital		142,671,276
Net assets, at value	**$**	**111,935,819**
Class A		
Net Asset Value, offering and redemption price per share ($111,935,819 ÷ 19,571,536 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.72**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Interest	$	5,305,633
Income distributions — Central Cash Management Fund		13,445
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		8,724
Total income		5,327,802
Expenses:		
Management fee		463,328
Administration fee		118,802
Services to shareholders		2,444
Custodian fee		17,294
Audit and tax fees		38,806
Legal fees		21,132
Reports to shareholders		49,655
Trustees' fees and expenses		4,978
Other		23,596
Total expenses		740,035
Net investment income		**4,587,767**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		3,326,788
Swap contracts		(820,768)
Futures		(1,433,133)
Foreign currency		(75,349)
		997,538
Change in net unrealized appreciation (depreciation) on:		
Investments		2,119,299
Futures		(1,184,558)
Foreign currency		(29,052)
		905,689
Net gain (loss)		**1,903,227**
Net increase (decrease) in net assets resulting from operations	**$**	**6,490,994**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 4,587,767	$ 5,460,988
Net realized gain (loss)	997,538	5,014,458
Change in net unrealized appreciation (depreciation)	905,689	3,501
Net increase (decrease) in net assets resulting from operations	6,490,994	10,478,947
Distributions to shareholders from:		
Net investment income:		
Class A	(4,956,830)	(6,962,542)
Fund share transactions:		
Class A		
Proceeds from shares sold	13,875,163	16,049,365
Reinvestment of distributions	4,956,830	6,962,542
Payments for shares redeemed	(63,808,031)	(29,824,695)
Net increase (decrease) in net assets from Class A share transactions	(44,976,038)	(6,812,788)
Increase (decrease) in net assets	(43,441,874)	(3,296,383)
Net assets at beginning of period	155,377,693	158,674,076
Net assets at end of period (including undistributed net investment income of $4,694,271 and $4,830,117, respectively)	**$ 111,935,819**	**$ 155,377,693**

Other Information		
Class A		
Shares outstanding at beginning of period	27,458,970	28,638,100
Shares sold	2,449,457	2,857,267
Shares issued to shareholders in reinvestment of distributions	891,516	1,277,530
Shares redeemed	(11,228,407)	(5,313,927)
Net increase (decrease) in Class A shares	(7,887,434)	(1,179,130)
Shares outstanding at end of period	**19,571,536**	**27,458,970**

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

Financial Highlights

Class A	2011	2010	2009	2008	2007
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$ 5.66**	**$ 5.54**	**$ 5.50**	**$ 6.98**	**$ 7.03**
Income (loss) from investment operations:					
Net investment income[a]	.22	.19	.25	.37	.35
Net realized and unrealized gain (loss)	.09	.18	.26	(1.48)	(.06)
Total from investment operations	.31	.37	.51	(1.11)	.29
Less distributions from:					
Net investment income	(.25)	(.25)	(.47)	(.37)	(.34)
Net asset value, end of period	**$ 5.72**	**$ 5.66**	**$ 5.54**	**$ 5.50**	**$ 6.98**
Total Return (%)	5.68	6.79	10.07	(16.77)	4.18
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	112	155	159	155	229
Ratio of expenses (%)	.62	.59	.59	.59	.61
Ratio of net investment income (%)	3.86	3.42	4.68	5.76	5.03
Portfolio turnover rate (%)	219	357	284	196	185

[a] Based on average shares outstanding during the period.

Notes to Financial Statements

A. Organization and 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 five diversified funds: DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP (formerly DWS Global Opportunities VIP) and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS Bond VIP. 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").

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Debt securities are valued at prices supplied 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. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and are categorized as Level 2.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and

IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Loan Participations and Assignments. Loan Participations and Assignments are portions of loans originated by banks and sold in pieces to investors. These U.S. dollar-denominated fixed and floating rate loans ("Loans") in which the Fund invests, are arranged between the borrower and one or more financial institutions ("Lenders"). These Loans may take the form of Senior Loans, which are corporate obligations often issued in connection with recapitalizations, acquisitions, leveraged buy-outs and refinancings, and Sovereign Loans, which are debt instruments between a foreign sovereign entity and one or more financial institutions. The Fund invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of Loans from third parties ("Assignments"). Participations typically result in the Fund having a contractual relationship only with the Lender, not with the borrower. The Fund has the right to receive payments of principal, interest and any fees to which it is entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Fund generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, or any rights of set-off against the borrower, and the Fund will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Fund having a direct contractual relationship with the borrower, and the Fund may enforce compliance by the borrower with the terms of the loan agreement. Senior loans held by the Fund generally in the form of Assignments but the Fund may also invest in Participations. All Loan Participations and Assignments involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

When-Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into a purchase 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 transactions from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

Federal Income Taxes. The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $36,827,000, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first.

In addition, from November 1, 2011 through December 31, 2011, the Fund elects to defer qualified late year losses of approximately $503,000 of net realized long-term capital losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its 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 the Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

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

At December 31, 2011, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 4,738,103
Capital loss carryforwards	$ (36,827,000)
Net unrealized appreciation (depreciation) on investments	$ 2,148,879

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

	Years Ended December 31,	
	2011	**2010**
Distributions from ordinary income*	$ 4,956,830	$ 6,962,542

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

B. Derivative Instruments

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund invested in interest rate futures to gain exposure to different parts of the yield curve while managing the overall duration. The Fund also entered into currency futures contracts for non-hedging purposes to seek to enhance potential gains.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $14,990,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $27,770,000 to $49,190,000.

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. For the year ended December 31, 2011, the Fund bought credit default swap contracts to gain exposure to an underlying reference entity's credit quality characteristics without directly investing in that reference entity, or to hedge the risk of default on Fund securities. As a seller in the credit default swap contract, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Fund 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 Fund with the occurrence of a credit event. When the Fund 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 Fund.

The value of the credit default swap is adjusted daily and the change in value, if any, is recorded daily as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Under the terms of the credit default swap contracts, the Fund 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 in 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 in the Statement of Operations.

There are no open credit default swap contracts as of December 31, 2011. For the year ended December 31, 2011, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to approximately $5,700,000.

Total Return Swap Contracts. Total return swaps involve commitments to pay interest in exchange for a market-linked return based on a notional amount. For the year ended December 31, 2011, the Fund entered into total return swap transactions to enhance potential gains. 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 Fund 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 the underlying reference security or index. The value of the swap is adjusted daily and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of each measurement period are recorded as realized gain or loss in the Statement of Operations.

There are no open contracts as of December 31, 2011. For the year ended December 31, 2011, the investment in total return swap contracts had a total notional amount generally indicative of a range from $0 to approximately $9,000,000.

Forward Foreign Currency Exchange Contracts. A forward foreign currency exchange contract ("forward currency contract") is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. The Fund is subject to foreign exchange rate risk in its securities denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may affect the U.S. dollar value of foreign securities or the income or gains received on these securities. To reduce the effect of currency fluctuations, the Fund may enter into forward currency contracts. For the year ended December 31, 2011, the Fund invested in forward currency contracts to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated securities. In addition, the Fund also engaged in forward currency contracts for non-hedging purposes to seek to enhance potential gains.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of December 31, 2011, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from approximately $26,000 to $2,593,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from $0 to approximately $4,860,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ 137,992	$ 137,992
Foreign Exchange Contracts (b)	21,461	21,099	42,560
	$ 21,461	**$ 159,091**	**$ 180,552**

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

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

(b) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivative	**Futures Contracts**
Interest Rate Contracts (a)	$ (454,993)

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Forward Contracts	Swap Contracts	Futures Contracts	Total
Foreign Exchange Contracts (a) (b)	$ (84,630)	$ —	$ (512,163)	$ (596,793)
Interest Rate Contracts (b)	—	52,362	(920,970)	(868,608)
Credit Contracts (b)	—	(873,130)	—	(873,130)
	$ (84,630)	**$ (820,768)**	**$ (1,433,133)**	**$ (2,338,531)**

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

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

(b) Net realized gain (loss) from swaps and futures, respectively

Change in Net Unrealized Appreciation (Depreciation)	Forward Contracts	Futures Contracts	Total
Foreign Exchange Contracts (a) (b)	$ (25,565)	$ 44,490	$ 18,925
Interest Rate Contracts (b)	—	(1,229,048)	(1,229,048)
	$ (25,565)	**$ (1,184,558)**	**$ (1,210,123)**

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

(a) Change in net unrealized appreciation (depreciation) on foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

(b) Change in net unrealized appreciation (depreciation) on swaps and futures, respectively

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $251,298,054 and $294,606,449, respectively. Purchases and sales of U.S. Treasury obligations aggregated $39,298,924 and $41,661,141, respectively.

D. Related Parties

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

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

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

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.39% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $118,802, of which $9,513 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC aggregated $566, of which $142 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,237, of which $3,049 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls or delayed settlements and may have prices more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

F. Ownership of the Fund

Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, owning 48%, 21% and 11%, respectively.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

Report of Independent Registered Public Accounting Firm

To the Trustees of DWS Variable Series I and the Shareholders of DWS Bond 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 Bond VIP (the "Fund") at December 31, 2011 and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with 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, 2011 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 15, 2012

PricewaterhouseCoopers LLP

Information About Your Fund's Expenses

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,016.90
Expenses Paid per $1,000*	$ 3.15
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,022.08
Expenses Paid per $1,000*	$ 3.16

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

Annualized Expense Ratio	**Class A**
DWS Variable Series I — DWS Bond VIP	.62%

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

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

Tax Information

(Unaudited)

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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Bond VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS'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, DWS provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, 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 outperformed its benchmark in the one-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2010. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DWS the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance during the first seven months of 2011. The Board recognized that DWS 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 DWS 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 a 0.10% fee paid to DWS 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, 2010). 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, 2010) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1bond-2 (R-025819-1 2/12)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES I

DWS Capital Growth VIP

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

Stocks may decline in value. The fund may lend securities to approved institutions. See the prospectus for details.

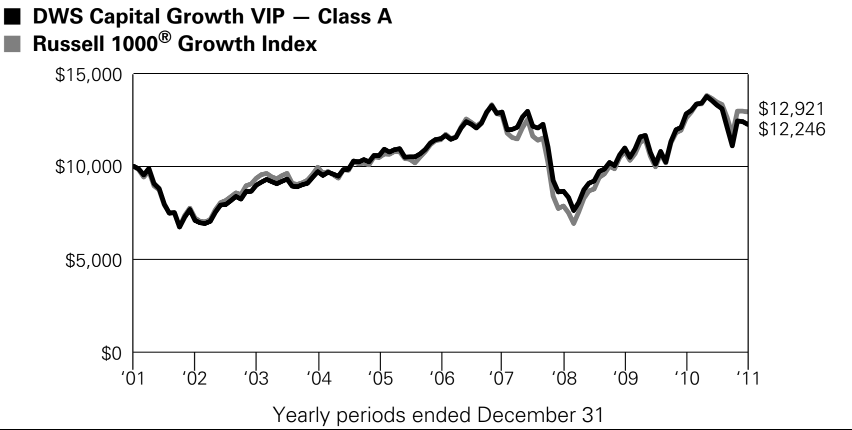
Performance Summary

December 31, 2011

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 0.51% and 0.85% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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.

Index returns do not reflect any fees or expenses and 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	$9,553	$14,144	$10,673	$12,246
	Average annual total return	–4.47%	12.25%	1.31%	2.05%
Russell 1000 Growth Index	Growth of $10,000	$10,264	$16,437	$11,314	$12,921
	Average annual total return	2.64%	18.02%	2.50%	2.60%

DWS Capital Growth VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,524	$14,014	$10,501	$11,846
	Average annual total return	–4.76%	11.91%	0.98%	1.71%
Russell 1000 Growth Index	Growth of $10,000	$10,264	$16,437	$11,314	$12,921
	Average annual total return	2.64%	18.02%	2.50%	2.60%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2011

Stocks began the annual period on a strong note, as the U.S. Federal Reserve Board's (the Fed's) stimulative quantitative easing initiative, signs of improving economic growth and strong corporate earnings induced investors to buy stocks through the first five months of the year.[1] From that point, the investing backdrop gradually grew less favorable for three reasons. The primary issue weighing on the market was the European debt crisis, which raised fears of a broader financial system collapse similar to 2008–2009. At the same time, growth in China — which is generally seen as the engine of the world economy — slowed precipitously. Even more relevant to the U.S. market, the domestic economy exhibited weakness in a number of areas. In response to these developments, the U.S. stock market slipped lower during June and then plunged during the third quarter. The market subsequently staged a recovery in the fourth quarter following a pickup in a number of key economic indicators, enabling the Russell 1000 Growth® Index to finish the period with a slightly positive return.[2]

For the 12 months ended December 31, 2011, the Fund returned –4.47% (Class A shares, unadjusted for contract charges), underperforming the 2.64% return of the Russell 1000 Growth Index.

During 2011, underperformance was primarily driven by unfavorable stock selection, with all 10 sectors detracting from relative return. The majority of the underperformance was concentrated within information technology, energy, materials, consumer staples, financials and health care, as holdings in these sectors underperformed their respective benchmark positions by the widest margins.[3] Sector allocation also detracted from relative performance in almost every sector, especially based on underweights to consumer staples and consumer discretionary, which were above-average performers in the benchmark.[4,5] In addition, the Fund's overweight in industrials hurt performance, as the sector was one of the benchmark's bottom performers during the year. No sector contributed positively through stock selection or allocation, and the Fund's cash holdings also weighed on relative performance as the benchmark rose.

Going forward, we will continue to seek high-quality companies that we believe will outperform in the long run, with lower overall risk.

Owen Fitzpatrick, CFA
Lead Portfolio Manager

Thomas M. Hynes, Jr., CFA
Brendan O'Neill, CFA
Portfolio Managers

1 Quantitative easing is a type of monetary policy whereby governments buy government or other types of securities from the market in order to increase the money supply.

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

3 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

4 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life.

5 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	98%	100%
Cash Equivalents	2%	—
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/11**	**12/31/10**
Information Technology	31%	31%
Industrials	14%	14%
Consumer Discretionary	13%	16%
Energy	12%	12%
Health Care	10%	10%
Consumer Staples	10%	5%
Financials	5%	5%
Materials	4%	6%
Utilities	1%	1%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2011

	Shares	Value ($)
Common Stocks 98.7%		
Consumer Discretionary 12.6%		
Auto Components 0.8%		
BorgWarner, Inc.* (a)	91,873	**5,855,985**
Hotels Restaurants & Leisure 3.4%		
McDonald's Corp. (a)	91,139	9,143,976
Starwood Hotels & Resorts Worldwide, Inc. (a)	196,067	9,405,334
Wynn Resorts Ltd. (a)	44,128	4,875,702
		23,425,012
Multiline Retail 0.8%		
Dollar General Corp.* (a)	132,303	**5,442,945**
Specialty Retail 4.3%		
Bed Bath & Beyond, Inc.* (a)	131,043	7,596,563
Dick's Sporting Goods, Inc. (a)	186,327	6,871,740
Limited Brands, Inc. (a)	345,075	13,923,776
Sally Beauty Holdings, Inc.*	65,116	1,375,901
		29,767,980
Textiles, Apparel & Luxury Goods 3.3%		
Coach, Inc.	118,441	7,229,639
NIKE, Inc. "B" (a)	163,427	15,749,460
		22,979,099
Consumer Staples 9.8%		
Beverages 2.3%		
PepsiCo, Inc.	237,734	**15,773,651**
Food & Staples Retailing 4.9%		
Costco Wholesale Corp. (a)	161,629	13,466,928
Wal-Mart Stores, Inc. (a)	161,247	9,636,121
Whole Foods Market, Inc. (a)	159,957	11,129,808
		34,232,857
Food Products 2.6%		
Kellogg Co. (a)	170,844	8,639,581
Kraft Foods, Inc. "A" (a)	242,466	9,058,530
		17,698,111
Energy 12.3%		
Energy Equipment & Services 3.9%		
Halliburton Co. (a)	154,742	5,340,146
National Oilwell Varco, Inc.	44,759	3,043,164
Oil States International, Inc.* (a)	69,464	5,304,966
Schlumberger Ltd. (a)	195,355	13,344,700
		27,032,976
Oil, Gas & Consumable Fuels 8.4%		
Anadarko Petroleum Corp.	173,181	13,218,906
Concho Resources, Inc.* (a)	20,434	1,915,688
EOG Resources, Inc.	116,378	11,464,397
Exxon Mobil Corp. (a)	178,621	15,139,916
Occidental Petroleum Corp.	112,305	10,522,978
Plains Exploration & Production Co.*	149,921	5,505,099
		57,766,984
Financials 4.9%		
Capital Markets 2.3%		
Ameriprise Financial, Inc.	79,560	3,949,359
T. Rowe Price Group, Inc. (a)	211,234	12,029,776
		15,979,135

	Shares	Value ($)
Consumer Finance 1.1%		
Discover Financial Services (a)	300,809	**7,219,416**
Real Estate Investment Trusts 1.5%		
American Tower Corp. "A"	175,390	**10,525,154**
Health Care 10.4%		
Biotechnology 3.8%		
Celgene Corp.* (a)	271,862	18,377,871
Gilead Sciences, Inc.*	191,732	7,847,591
		26,225,462
Health Care Equipment & Supplies 2.3%		
CareFusion Corp.*	198,533	5,044,724
Edwards Lifesciences Corp.*	61,242	4,329,809
St. Jude Medical, Inc.	180,185	6,180,345
		15,554,878
Health Care Providers & Services 3.5%		
Express Scripts, Inc.* (a)	291,840	13,042,329
McKesson Corp.	145,768	11,356,785
		24,399,114
Life Sciences Tools & Services 0.8%		
Thermo Fisher Scientific, Inc.*	125,509	**5,644,140**
Industrials 13.4%		
Aerospace & Defense 3.2%		
TransDigm Group, Inc.*	69,790	6,677,507
United Technologies Corp.	208,498	15,239,119
		21,916,626
Commercial Services & Supplies 0.8%		
Stericycle, Inc.* (a)	68,004	**5,298,872**
Electrical Equipment 3.0%		
AMETEK, Inc. (a)	257,460	10,839,066
Roper Industries, Inc. (a)	117,177	10,179,166
		21,018,232
Machinery 4.3%		
Dover Corp. (a)	136,596	7,929,398
Navistar International Corp.*	133,220	5,046,373
Parker Hannifin Corp. (a)	152,121	11,599,226
SPX Corp.	86,740	5,227,820
		29,802,817
Road & Rail 2.1%		
Norfolk Southern Corp. (a)	198,173	**14,438,885**
Information Technology 30.6%		
Communications Equipment 3.9%		
QUALCOMM, Inc.	493,573	**26,998,443**
Computers & Peripherals 10.8%		
Apple, Inc.* (a)	138,274	56,000,970
EMC Corp.* (a)	851,376	18,338,639
		74,339,609
Internet Software & Services 2.2%		
Google, Inc. "A"*	23,255	**15,020,404**
IT Services 4.6%		
Accenture PLC "A" (a)	265,347	14,124,421
International Business Machines Corp. (a)	72,442	13,320,635
VeriFone Systems, Inc.* (a)	115,688	4,109,238
		31,554,294

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

	Shares	Value ($)
Semiconductors & Semiconductor Equipment 2.2%		
Intel Corp. (a)	405,917	9,843,487
Skyworks Solutions, Inc.*	321,408	5,213,238
		15,056,725
Software 6.9%		
Check Point Software Technologies Ltd.* (a)	141,368	7,427,475
Microsoft Corp.	658,705	17,099,983
Oracle Corp.	795,268	20,398,624
Solera Holdings, Inc.	71,246	3,173,297
		48,099,379
Materials 4.2%		
Chemicals 2.5%		
Ecolab, Inc. (a)	158,312	9,152,017
The Mosaic Co.	152,949	7,713,218
		16,865,235
Metals & Mining 1.7%		
Freeport-McMoRan Copper & Gold, Inc.	249,124	9,165,272
Walter Energy, Inc. (a)	46,463	2,813,799
		11,979,071
Utilities 0.5%		
Water Utilities		
American Water Works Co., Inc.	112,836	**3,594,955**
Total Common Stocks (Cost $495,998,980)		**681,506,446**

Securities Lending Collateral 40.9%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.18% (b) (c) (Cost $282,395,986)	282,395,986	**282,395,986**

Cash Equivalents 2.3%

	Shares	Value ($)
Central Cash Management Fund, (b) 0.07% (Cost $15,563,229)	15,563,229	**15,563,229**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $793,958,195)†	141.9	**979,465,661**
Other Assets and Liabilities, Net	(41.9)	**(289,147,223)**
Net Assets	100.0	**690,318,438**

* Non-income producing security.

† The cost for federal income tax purposes was $797,526,729. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $181,938,932. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $209,813,930 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $27,874,998.

(a) All or a portion of these securities were on loan amounting to $275,384,378. In addition, included in other assets and liabilities, net is a pending sale, amounting to $121,083, that is also on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2011 amounted to $275,505,461, which is 39.9% of net assets.

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

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (d)	$ 681,506,446	$ —	$ —	$ 681,506,446
Short-Term Investments (d)	297,959,215	—	—	297,959,215
Total	**$ 979,465,661**	**$ —**	**$ —**	**$ 979,465,661**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(d) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $495,998,980) — including $275,384,378 of securities loaned	$ 681,506,446
Investment in Daily Assets Fund Institutional (cost $282,395,986)*	282,395,986
Investment in Central Cash Management Fund (cost $15,563,229)	15,563,229
Total investments in securities, at value (cost $793,958,195)	979,465,661
Foreign currency, at value (cost $5,381)	5,149
Receivable for investments sold	13,994,056
Receivable for Fund shares sold	19,321
Dividends receivable	596,415
Interest receivable	38,759
Foreign taxes recoverable	45,773
Other assets	11,277
Total assets	994,176,411

Liabilities	
Payable upon return of securities loaned	282,395,986
Payable for investments purchased	20,154,273
Payable for Fund shares redeemed	847,470
Accrued management fee	223,122
Other accrued expenses and payables	237,122
Total liabilities	303,857,973
Net assets, at value	**$ 690,318,438**

Net Assets Consist of	
Undistributed net investment income	6,289,845
Net unrealized appreciation (depreciation) on:	
Investments	185,507,466
Foreign currency	5,810
Accumulated net realized gain (loss)	(131,328,303)
Paid-in capital	629,843,620
Net assets, at value	**$ 690,318,438**
Class A	
Net Asset Value, offering and redemption price per share ($677,395,836 ÷ 36,451,466 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 18.58**
Class B	
Net Asset Value, offering and redemption price per share ($12,922,602 ÷ 698,290 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 18.51**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income	
Income:	
Dividends	$ 10,069,693
Income distributions — Central Cash Management Fund	8,402
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	192,756
Total income	10,270,851
Expenses:	
Management fee	2,812,890
Administration fee	753,532
Services to shareholders	5,171
Distribution service fee (Class B)	33,073
Record keeping fee (Class B)	11,465
Custodian fee	7,110
Professional fees	86,004
Reports to shareholders	42,761
Trustees' fees and expenses	23,627
Other	65,882
Total expenses	3,841,515
Net investment income (loss)	**6,429,336**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	28,062,523
Foreign currency	111
	28,062,634
Change in net unrealized appreciation (depreciation) on:	
Investments	(77,915,680)
Foreign currency	1,487
	(77,914,193)
Net gain (loss)	**(49,851,559)**
Net increase (decrease) in net assets resulting from operations	**$ (43,422,223)**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 6,429,336	$ 5,440,265
Net realized gain (loss)	28,062,634	56,939,552
Change in net unrealized appreciation (depreciation)	(77,914,193)	46,062,994
Net increase (decrease) in net assets resulting from operations	(43,422,223)	108,442,811
Distributions to shareholders from:		
Net investment income:		
Class A	(5,283,454)	(6,317,623)
Class B	(48,050)	(67,783)
Total distributions	(5,331,504)	(6,385,406)
Fund share transactions:		
Class A		
Proceeds from shares sold	10,917,405	12,396,402
Net assets acquired in tax-free reorganization*	126,872,037	—
Reinvestment of distributions	5,283,454	6,317,623
Payments for shares redeemed	(146,734,714)	(105,101,955)
Net increase (decrease) in net assets from Class A share transactions	(3,661,818)	(86,387,930)
Class B		
Proceeds from shares sold	822,574	1,077,251
Net assets acquired in tax-free reorganization*	3,304,909	—
Reinvestment of distributions	48,050	67,783
Payments for shares redeemed	(2,497,610)	(2,881,286)
Net increase (decrease) in net assets from Class B share transactions	1,677,923	(1,736,252)
Increase (decrease) in net assets	(50,737,622)	13,933,223
Net assets at beginning of period	741,056,060	727,122,837
Net assets at end of period (including undistributed net investment income of $6,289,845 and $5,191,902, respectively)	**$ 690,318,438**	**$ 741,056,060**

Other Information		
Class A		
Shares outstanding at beginning of period	37,210,167	42,229,316
Shares sold	556,745	714,318
Shares issued in tax-free reorganization*	6,079,145	—
Shares issued to shareholders in reinvestment of distributions	254,870	348,655
Shares redeemed	(7,649,461)	(6,082,122)
Net increase (decrease) in Class A shares	(758,701)	(5,019,149)
Shares outstanding at end of period	**36,451,466**	**37,210,167**
Class B		
Shares outstanding at beginning of period	623,731	725,636
Shares sold	43,180	62,186
Shares issued in tax-free reorganization*	158,668	—
Shares issued to shareholders in reinvestment of distributions	2,322	3,749
Shares redeemed	(129,611)	(167,840)
Net increase (decrease) in Class B shares	74,559	(101,905)
Shares outstanding at end of period	**698,290**	**623,731**

* On April 29, 2011, DWS Health Care VIP and DWS Technology VIP were acquired by the Fund through a tax-free reorganization (see Note F).

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

Financial Highlights

Class A	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$19.59**	**$16.93**	**$13.55**	**$20.41**	**$18.24**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.17	.14[c]	.14	.16	.17[c]
Net realized and unrealized gain (loss)	(1.03)	2.68	3.43	(6.83)	2.12
Total from investment operations	(.86)	2.82	3.57	(6.67)	2.29
Less distributions from:					
Net investment income	(.15)	(.16)	(.19)	(.19)	(.12)
Net asset value, end of period	**$18.58**	**$19.59**	**$16.93**	**$13.55**	**$20.41**
Total Return (%)	(4.47)	16.71[b]	26.87[b]	(32.98)[b]	12.59[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	677	729	715	594	1,058
Ratio of expenses before expense reductions (%)	.50	.51	.51	.50	.53
Ratio of expenses after expense reductions (%)	.50	.51	.49	.49	.52
Ratio of net investment income (loss) (%)	.86	.78[c]	.98	.89	.86[c]
Portfolio turnover rate (%)	47	42	76	21	30

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 ratio of net investment income include non-recurring dividend income amounting to $0.05 and $0.03 per share and 0.28% and 0.17% of average daily net assets for the years ended December 31, 2010 and 2007, respectively.

Class B	2011	Years Ended December 31, 2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$19.51**	**$16.86**	**$13.49**	**$20.31**	**$18.15**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.10	.08[c]	.09	.10	.09[c]
Net realized and unrealized gain (loss)	(1.02)	2.67	3.43	(6.81)	2.12
Total from investment operations	(.92)	2.75	3.52	(6.71)	2.21
Less distributions from:					
Net investment income	(.08)	(.10)	(.15)	(.11)	(.05)
Net asset value, end of period	**$18.51**	**$19.51**	**$16.86**	**$13.49**	**$20.31**
Total Return (%)	(4.76)	16.33[b]	26.49[b]	(33.20)[b]	12.18[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	13	12	12	10	19
Ratio of expenses before expense reductions (%)	.84	.85	.85	.85	.94
Ratio of expenses after expense reductions (%)	.84	.84	.82	.82	.90
Ratio of net investment income (loss) (%)	.52	.45[c]	.65	.56	.48[c]
Portfolio turnover rate (%)	47	42	76	21	30

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 ratio of net investment income include non-recurring dividend income amounting to $0.05 and $0.03 per share and $0.28% and 0.17% of average daily net assets for the years ended December 31, 2010 and 2007, respectively.

Notes to Financial Statements

A. Organization and 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 five diversified funds: DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP (formerly DWS Global Opportunities VIP) and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS Capital Growth VIP. The Series is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and recordkeeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and

IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Federal Income Taxes. The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $127,751,000, including $60,976,000 of pre-enactment losses of which $33,901,000 was inherited from its merger with DWS Technology VIP in the current year and $27,075,000 was inherited from its merger with other affiliated funds in previous years and may be applied against any realized net taxable capital gains of each year until fully utilized or until December 31, 2012 ($28,616,000), December 31, 2015 ($19,311,000), December 31, 2016 ($41,665,000) and December 31, 2017 ($38,159,000), the respective expiration dates, whichever occurs first, and which may be subject to certain limitations under Section 382-384 of the Internal Revenue Code.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its 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 the Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

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

At December 31, 2011, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 6,289,845
Capital loss carryforwards	$ (127,751,000)
Net unrealized gain appreciation (depreciation) investments	$ 181,938,932

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

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 5,331,504	$ 6,385,406

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment securities (excluding short-term investments) aggregated $353,604,662 and $488,652,071, respectively.

C. Related Parties

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

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

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

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.37% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $753,532, of which $59,675 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2011
Class A	$ 689	$ 171
Class B	131	35
	$ 820	**$ 206**

Distribution Service Agreement. 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. For the year ended December 31, 2011, the Distribution Service Fee aggregated $33,073, of which $2,086 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $15,780, of which $3,258 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

D. Ownership of the Fund

Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 36%, 36% and 14%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 82% and 16%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

F. Acquisition of Assets

On April 29, 2011, the Fund acquired all of the net assets of DWS Health Care VIP and DWS Technology VIP pursuant to a plan of reorganization approved by shareholders on April 11, 2011. The purpose of the transaction was to combine three funds managed by DWS with comparable investment objectives and strategies.

The acquisition was accomplished by a tax-free exchange as follows:

	Class A shares	Class B shares
DWS Health Care VIP	5,605,448	377,495
DWS Technology VIP	6,613,518	10,454

The above shares were exchanged for the following shares outstanding on the date acquired of the DWS Capital Growth VIP Fund:

	Class A shares	Class B shares
DWS Health Care VIP	2,358,210	152,955
DWS Technology VIP	3,720,935	5,713

The net assets at the acquired date were as follows:

DWS Health Care VIP	$	52,398,965
DWS Technology VIP	$	77,777,981

The net unrealized appreciation included in the net assets above were as follows:

DWS Health Care VIP	$	4,928,832
DWS Technology VIP	$	13,786,078

The aggregate net assets of DWS Capital Growth VIP immediately before the acquisition were $754,712,975. The combined net assets of DWS Capital Growth VIP immediately following the acquisition were $884,889,922.

The financial statements reflect the operations of the DWS Capital Growth VIP for the period prior to the acquisition and the combined portfolio for the period subsequent to the Fund merger. Assuming the acquisition had been completed on January 1, 2011, DWS Capital Growth VIP's pro forma results of operations for the period ending December 31, 2011, are as follows:

Net investment income*	$	6,336,241
Net gain (loss) on investments	$	(38,167,701)
Net increase (decrease) in net assets resulting from operations	$	(31,831,460)

* Net investment income includes $157,183 of pro forma eliminated expenses.

Report of Independent Registered Public Accounting Firm

To the Trustees of DWS Variable Series I and the Shareholders of DWS Capital Growth 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 Capital Growth VIP (the "Fund") at December 31, 2011 and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with 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, 2011 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 15, 2012

PricewaterhouseCoopers LLP

Information About Your Fund's Expenses

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 921.60	$ 920.40
Expenses Paid per $1,000*	$ 2.42	$ 4.02
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,022.68	$1,021.02
Expenses Paid per $1,000*	$ 2.55	$ 4.23

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

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Capital Growth VIP	.50%	.83%

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

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

Tax Information

(Unaudited)

For corporate shareholders, 100% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2011 qualified for the 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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Capital Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS'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, DWS provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 2nd 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 performed the same as its benchmark in the one-year period and has outperformed its benchmark in the three- and five-year periods ended December 31, 2010.

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 DWS 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 a 0.10% fee paid to DWS 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, 2010). 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, 2010) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1capgro-2 (R-025820-1 2/12)

Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES I

DWS Global Small Cap Growth VIP

(formerly DWS Global Opportunities VIP)

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

Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Stocks of smaller companies involve greater risk than securities of larger, more-established companies. Stocks may decline in value. The fund may lend securities to approved institutions. See the prospectus for details.

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

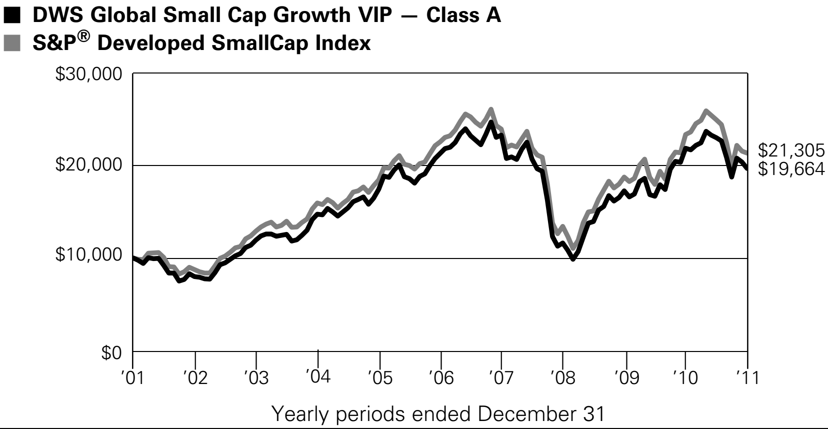
Performance Summary

December 31, 2011

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 1.12% and 1.34% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



The S&P® Developed SmallCap Index is an unmanaged index of small-capitalization stocks within 26 countries around the globe.

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

Comparative Results

DWS Global Small Cap Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,010	$16,911	$9,251	$19,664
	Average annual total return	–9.90%	19.14%	–1.55%	7.00%
S&P Developed SmallCap Index	Growth of $10,000	$9,143	$15,863	$9,463	$21,305
	Average annual total return	–8.57%	16.63%	–1.10%	7.86%

DWS Global Small Cap Growth VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$8,992	$16,780	$9,109	$19,189
	Average annual total return	–10.08%	18.83%	–1.85%	6.73%
S&P Developed SmallCap Index	Growth of $10,000	$9,143	$15,863	$9,463	$21,305
	Average annual total return	–8.57%	16.63%	–1.10%	7.86%

The growth of $10,000 is cumulative.

Management Summary

DWS Global Small Cap Growth VIP returned –9.90% in 2011 (Class A shares, unadjusted for contract charges), underperforming the –8.57% return of the S&P® Developed SmallCap Index.[1]

The Fund's overweight in non-U.S. equities, which we found to be more attractively valued than their U.S.-based counterparts, was a headwind to performance given the poor returns of international equities in 2011.[2] Historically, we have been able to overcome such regional factors through stock selection, but we were unable to do so during the past year. While our European holdings actually had a positive return in 2011, our overweight position in Asia — along with our stock selection in the region — was a drag on our results. Our stock selection also missed the mark in financials, where we were hurt by our positions in Chinese stocks that experienced substantial underperformance, including K Wah International Holdings Ltd. and REXlot Holdings Ltd. Our performance was also affected by our stock selection in the consumer discretionary sector, where the auto parts manufacturer Minth Group Ltd. was our leading detractor, and in consumer staples, where Diamond Foods, Inc. pressured our results.[3,4] On the positive side, our investments in health care handily outpaced the broader sector due, in part, to the strong performance of Questcor Pharmaceuticals, Inc. and Fresenius Medical Care AG & Co KGaA. We also added value through stock selection in the industrials, materials and energy sectors.

Although various risks to economic growth continue to weigh heavily on day-to-day market performance, we believe the longer-term outlook for equities is favorable. Global growth has stabilized and corporate earnings growth remains steady, yet valuations are depressed relative to historical levels. There is a growing universe of small-cap companies with cash-rich balance sheets, robust earnings growth and cautious managements positioned to survive — and potentially thrive — despite the macroeconomic backdrop. In short, we see a disconnect between market performance and underlying corporate fundamentals. We have sought to capitalize on this divergence by putting cash to work in select new and existing holdings, and balancing our exposure between inexpensive but economically sensitive companies on one hand and stable, secular growth companies on the other. We believe our approach of using market volatility to buy growing companies at attractive valuations helps build the foundation for long-term returns.

Joseph Axtell, CFA
Portfolio Manager

1 The S&P Developed SmallCap Index is an unmanaged index of small-capitalization stocks within 26 countries around the globe. Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

2 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

3 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life.

4 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/11**	**12/31/10**
United States	45%	40%
Continental Europe	22%	21%
United Kingdom	11%	9%
Asia (excluding Japan)	10%	15%
Japan	7%	8%
Canada	1%	2%
Middle East	1%	1%
Latin America	1%	1%
Australia	1%	2%
Other	1%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/11**	**12/31/10**
Industrials	23%	22%
Consumer Discretionary	20%	18%
Health Care	20%	14%
Information Technology	12%	15%
Financials	10%	12%
Energy	8%	8%
Consumer Staples	5%	5%
Materials	2%	6%
	100%	100%

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

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2011

	Shares	Value ($)
Common Stocks 99.2%		
Australia 0.6%		
Austal Ltd. (Cost $606,215)	317,365	**698,496**
Austria 0.9%		
Andritz AG (Cost $1,240,572)	14,123	**1,170,090**
Bermuda 0.8%		
Energy XXI (Bermuda) Ltd.*	10,250	326,770
Lazard Ltd. "A" (a)	26,900	702,359
(Cost $962,653)		**1,029,129**
Brazil 1.0%		
Fleury SA (Cost $1,245,600)	106,204	**1,218,478**
Canada 1.2%		
Americas Petrogas, Inc.*	116,965	342,140
SunOpta, Inc.*	230,568	1,111,338
(Cost $1,995,560)		**1,453,478**
Channel Islands 0.9%		
Randgold Resources Ltd. (ADR) (Cost $721,102)	11,627	**1,187,117**
China 1.8%		
Charm Communications, Inc. (ADR)*	108,791	943,218
Minth Group Ltd.	1,441,534	1,353,570
(Cost $1,883,936)		**2,296,788**
Cyprus 0.6%		
ProSafe SE (Cost $668,450)	102,813	**701,661**
France 1.5%		
Flamel Technologies SA (ADR)*	167,113	870,659
JC Decaux SA*	44,410	1,019,619
(Cost $3,221,460)		**1,890,278**
Germany 6.0%		
Fresenius Medical Care AG & Co. KGaA	54,151	3,679,354
M.A.X. Automation AG	232,043	1,144,794
Rational AG	5,948	1,294,787
United Internet AG (Registered)	77,391	1,382,225
(Cost $2,311,882)		**7,501,160**
Gibraltar 0.4%		
Bwin.Party Digital Entertainment PLC (Cost $874,189)	211,754	**537,049**
Hong Kong 3.5%		
EVA Precision Industrial Holdings Ltd.	5,676,229	1,372,545
K Wah International Holdings Ltd.	3,998,674	1,013,208
REXLot Holdings Ltd.	21,156,155	1,388,108
SOCAM Development Ltd.	648,348	598,773
(Cost $4,763,268)		**4,372,634**
Ireland 3.8%		
C&C Group PLC (b)	144,956	534,035
C&C Group PLC (b)	185,737	689,764
Paddy Power PLC	35,978	2,068,067
Ryanair Holdings PLC* (b)	307,920	1,442,209
Ryanair Holdings PLC* (b)	2,200	10,572
(Cost $2,987,386)		**4,744,647**
Israel 0.4%		
EZchip Semiconductor Ltd.* (a) (Cost $631,763)	19,000	**538,270**
Italy 0.5%		
Prysmian SpA (Cost $837,686)	46,571	**575,535**
Japan 7.3%		
Hajime Construction Co., Ltd.	41,681	856,115
Internet Initiative Japan, Inc.	200	716,503
JFE Shoji Holdings, Inc.	215,014	895,651
Kato Sangyo Co., Ltd.	38,582	744,289
MISUMI Group, Inc.	51,653	1,185,312
Nippon Seiki Co., Ltd.	104,513	1,131,708
Sumikin Bussan Corp.	422,428	1,069,256
Universal Entertainment Corp.	90,418	2,496,887
(Cost $8,020,473)		**9,095,721**
Korea 0.8%		
DGB Financial Group, Inc.* (Cost $1,413,502)	95,106	**1,070,865**
Luxembourg 0.7%		
L'Occitane International SA (Cost $979,854)	453,341	**907,937**
Malaysia 0.6%		
Hartalega Holdings Bhd. (Cost $708,480)	402,191	**739,261**
Netherlands 4.9%		
Brunel International NV	24,631	723,194
Chicago Bridge & Iron Co. NV (c)	47,789	1,806,424
Koninklijke Vopak NV	32,153	1,693,970
SBM Offshore NV	91,270	1,876,152
(Cost $3,016,240)		**6,099,740**
Philippines 0.5%		
Cebu Air, Inc. (Cost $1,093,752)	403,406	**598,756**
Singapore 1.9%		
Amtek Engineering Ltd.	1,482,234	672,777
UOB-Kay Hian Holdings Ltd.	578,390	684,780
Yongnam Holdings Ltd.	5,575,193	989,307
(Cost $3,270,189)		**2,346,864**
Spain 0.4%		
Tecnicas Reunidas SA (d) (Cost $812,339)	13,884	**498,198**
Switzerland 1.2%		
Partners Group Holding AG (Cost $521,648)	8,555	**1,490,262**
Taiwan 0.8%		
E Ink Holdings, Inc. (Cost $1,473,862)	742,989	**967,265**
United Arab Emirates 0.7%		
Lamprell PLC (Cost $659,266)	217,459	**904,240**
United Kingdom 10.5%		
Aegis Group PLC	248,771	555,583
ARM Holdings PLC	174,989	1,613,215
Ashmore Group PLC	313,127	1,617,506
Babcock International Group PLC	178,266	2,028,043

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

	Shares	Value ($)
Burberry Group PLC	50,916	931,776
Domino's Pizza UK & IRL PLC	181,112	1,128,840
Hargreaves Lansdown PLC	66,976	445,977
ICAP PLC	98,470	529,749
IG Group Holdings PLC	150,274	1,112,121
John Wood Group PLC	94,125	932,413
Rotork PLC	45,773	1,366,984
Serco Group PLC	118,277	869,724
(Cost $8,664,002)		**13,131,931**

United States 45.0%

	Shares	Value ($)
Advance Auto Parts, Inc.	17,884	1,245,263
Aecom Technology Corp.*	47,758	982,382
Aeropostale, Inc.*	53,258	812,184
Affiliated Managers Group, Inc.*	9,854	945,491
Altra Holdings, Inc.*	49,452	931,181
Approach Resources, Inc.*	25,521	750,573
Atmel Corp.*	64,750	524,475
BE Aerospace, Inc.*	41,384	1,601,975
BorgWarner, Inc.*	15,623	995,810
Cardtronics, Inc.*	70,944	1,919,745
Centene Corp.*	53,624	2,122,974
Cognex Corp.	34,891	1,248,749
CONMED Corp.*	29,715	762,784
Deckers Outdoor Corp.*	21,867	1,652,489
Diamond Foods, Inc.	32,874	1,060,844
Dresser-Rand Group, Inc.*	27,393	1,367,185
FSI International, Inc.*	193,500	708,210
Green Mountain Coffee Roasters, Inc.*	9,280	416,208
Guess?, Inc.	30,700	915,474
Harris Corp.	23,156	834,542
Haynes International, Inc.	5,629	307,343
hhgregg, Inc.*	50,566	730,679
Jarden Corp.	32,704	977,196
Jefferies Group, Inc.	56,400	775,500
Joy Global, Inc.	9,018	676,079
Life Technologies Corp.*	29,757	1,157,845
MICROS Systems, Inc.*	6,285	292,755
NIC, Inc.	68,183	907,516
NxStage Medical, Inc.*	65,965	1,172,858
Oil States International, Inc.*	16,188	1,236,278
Onyx Pharmaceuticals, Inc.*	13,835	608,048
Pacira Pharmaceuticals, Inc.*	155,707	1,346,866
Polycom, Inc.*	25,876	421,779
Prosperity Bancshares, Inc.	28,851	1,164,138
Questcor Pharmaceuticals, Inc.*	76,571	3,183,822
Rosetta Resources, Inc.*	14,171	616,438
Rovi Corp.*	22,959	564,332
Schweitzer-Mauduit International, Inc.	24,006	1,595,439
Shutterfly, Inc.*	25,877	588,961
Sirona Dental Systems, Inc.*	20,815	916,693
Stericycle, Inc.*	12,271	956,156
SXC Health Solutions Corp.*	28,777	1,625,325
Sycamore Networks, Inc.*	37,933	679,001
Tenneco, Inc.*	18,649	555,367
Thoratec Corp.*	56,361	1,891,475
TiVo, Inc.*	72,127	646,979
TreeHouse Foods, Inc.*	20,019	1,308,842
Ultra Petroleum Corp.*	16,871	499,888
Universal American Corp.	67,383	856,438
Urban Outfitters, Inc.*	41,483	1,143,271
VeriFone Systems, Inc.*	20,277	720,239
VIVUS, Inc.*	86,066	839,143
WABCO Holdings, Inc.*	24,269	1,053,275
Waddell & Reed Financial, Inc. "A"	26,407	654,101
WellCare Health Plans, Inc.*	18,205	955,762
Zeltiq Aesthetics, Inc.*	44,760	508,474
Zions Bancorp.	20,704	337,061
(Cost $43,597,030)		**56,269,900**
Total Common Stocks (Cost $99,182,359)		**124,035,750**

Warrants 0.0%

Hong Kong

	Shares	Value ($)
Kingboard Chemical Holdings Ltd., Expiration Date 10/31/2012* (Cost $0)	39,014	**1,457**

Securities Lending Collateral 0.4%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.18% (e) (f) (Cost $468,662)	468,662	**468,662**

Cash Equivalents 0.7%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (e) (Cost $908,794)	908,794	**908,794**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $100,559,815)†	100.3	**125,414,663**
Other Assets and Liabilities, Net	(0.3)	**(366,042)**
Net Assets	100.0	**125,048,621**

* Non-income producing security.

† The cost for federal income tax purposes was $101,230,291. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $24,184,372. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $36,780,962 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $12,596,590.

(a) Listed on the NASDAQ Stock Market, Inc.

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

(c) Listed on the New York Stock Exchange.

(d) All or a portion of these securities were on loan (see Notes to Financial Statements). The value of all securities loaned at December 31, 2011 amounted to $447,854, which is 0.4% of net assets.

(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 Fund is net of borrower rebates.

ADR: American Depositary Receipt

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks & Warrants (g)				
Australia	$ —	$ 698,496	$ —	$ 698,496
Austria	—	1,170,090	—	1,170,090
Bermuda	1,029,129	—	—	1,029,129
Brazil	1,218,478	—	—	1,218,478
Canada	1,453,478	—	—	1,453,478
Channel Islands	1,187,117	—	—	1,187,117
China	943,218	1,353,570	—	2,296,788
Cyprus	—	701,661	—	701,661
France	870,659	1,019,619	—	1,890,278
Germany	—	7,501,160	—	7,501,160
Gibraltar	—	537,049	—	537,049
Hong Kong	—	4,374,091	—	4,374,091
Ireland	—	4,744,647	—	4,744,647
Israel	538,270	—	—	538,270
Italy	—	575,535	—	575,535
Japan	—	9,095,721	—	9,095,721
Korea	—	1,070,865	—	1,070,865
Luxembourg	—	907,937	—	907,937
Malaysia	—	739,261	—	739,261
Netherlands	1,806,424	4,293,316	—	6,099,740
Philippines	—	598,756	—	598,756
Singapore	—	2,346,864	—	2,346,864
Spain	—	498,198	—	498,198
Switzerland	—	1,490,262	—	1,490,262
Taiwan	—	967,265	—	967,265
United Arab Emirates	—	904,240	—	904,240
United Kingdom	—	13,131,931	—	13,131,931
United States	56,269,900	—	—	56,269,900
Short-Term Investments (g)	1,377,456	—	—	1,377,456
Total	**$ 66,694,129**	**$ 58,720,534**	**$ —**	**$ 125,414,663**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(g) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $99,182,359) — including $447,854 of securities loaned	$ 124,037,207
Investment in Daily Assets Fund Institutional (cost $468,662)*	468,662
Investment in Central Cash Management Fund (cost $908,794)	908,794
Total investments in securities, at value (cost $100,559,815)	125,414,663
Foreign currency, at value (cost $671,250)	654,374
Receivable for Fund shares sold	36,191
Dividends receivable	63,721
Interest receivable	199
Foreign taxes recoverable	30,023
Other assets	2,734
Total assets	126,201,905

Liabilities	
Payable upon return of securities loaned	468,662
Payable for investments purchased	351,996
Payable for Fund shares redeemed	161,792
Accrued management fee	86,841
Other accrued expenses and payables	84,002
Total liabilities	1,153,293
Net assets, at value	**$ 125,048,612**

Net Assets Consist of	
Undistributed net investment income	821,499
Net unrealized appreciation (depreciation) on:	
Investments	24,854,848
Foreign currency	(15,718)
Accumulated net realized gain (loss)	6,084,647
Paid-in capital	93,303,336
Net assets, at value	**$ 125,048,612**
Class A	
Net Asset Value, offering and redemption price per share ($123,176,738 ÷ 9,718,286 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.67**
Class B	
Net Asset Value, offering and redemption price per share ($1,871,874 ÷ 150,330 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.45**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $113,543)	$ 2,233,892
Income distributions — Central Cash Management Fund	4,008
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	69,748
Total income	2,307,648
Expenses:	
Management fee	1,308,836
Administration fee	147,060
Services to shareholders	4,095
Distribution service fee (Class B)	5,368
Custodian fee	33,685
Professional fees	62,958
Reports to shareholders	42,251
Trustees' fees and expenses	6,605
Other	43,338
Total expenses before expense reductions	1,654,196
Expense reductions	(181,324)
Total expenses after expense reductions	1,472,872
Net investment income (loss)	834,776

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	18,179,728
Foreign currency	3,410
	18,183,138
Change in net unrealized appreciation (depreciation) on:	
Investments (including deferred foreign taxes credit of $664)	(33,258,984)
Foreign currency	(22,388)
	(33,281,372)
Net gain (loss)	**(15,098,234)**
Net increase (decrease) in net assets resulting from operations	**$ (14,263,458)**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 834,776	$ 589,628
Net realized gain (loss)	18,183,138	13,410,313
Change in net unrealized appreciation (depreciation)	(33,281,372)	20,284,923
Net increase (decrease) in net assets resulting from operations	(14,263,458)	34,284,864
Distributions to shareholders from:		
Net investment income:		
Class A	(2,513,532)	(567,314)
Class B	(31,935)	(5,306)
Total distributions	(2,545,467)	(572,620)
Fund share transactions:		
Class A		
Proceeds from shares sold	8,812,558	13,029,724
Reinvestment of distributions	2,513,532	567,314
Payments for shares redeemed	(29,308,758)	(27,999,087)
Net increase (decrease) in net assets from Class A share transactions	(17,982,668)	(14,402,049)
Class B		
Proceeds from shares sold	118,378	260,167
Reinvestment of distributions	31,935	5,306
Payments for redeemed	(327,414)	(5,280,324)
Net increase (decrease) in net assets from Class B share transactions	(177,101)	(5,014,851)
Increase (decrease) in net assets	(34,968,694)	14,295,344
Net assets at beginning of period	160,017,306	145,721,962
Net assets at end of period (including undistributed net investment income of $821,499 and $768,378, respectively)	**$ 125,048,612**	**$ 160,017,306**

Other Information		
Class A		
Shares outstanding at beginning of period	11,043,518	12,301,988
Shares sold	635,010	1,052,936
Shares issued to shareholders in reinvestment of distributions	165,582	46,236
Shares redeemed	(2,125,824)	(2,357,642)
Net increase (decrease) in Class A shares	(1,325,232)	(1,258,470)
Shares outstanding at end of period	**9,718,286**	**11,043,518**
Class B		
Shares outstanding at beginning of period	163,772	586,186
Shares sold	8,664	22,014
Shares issued to shareholders in reinvestment of distributions	2,139	439
Shares redeemed	(24,245)	(444,867)
Net increase (decrease) in Class B shares	(13,442)	(422,414)
Shares outstanding at end of period	**150,330**	**163,772**

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

Financial Highlights

Class A	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$14.28**	**$11.32**	**$ 7.79**	**$18.28**	**$18.15**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.08	.05	.04	.20[c]	.08[c]
Net realized and unrealized gain (loss)	(1.45)	2.96	3.64	(8.18)	1.61
Total from investment operations	(1.37)	3.01	3.68	(7.98)	1.69
Less distributions from:					
Net investment income	(.24)	(.05)	(.15)	(.04)	(.23)
Net realized gains	—	—	—	(2.47)	(1.33)
Total distributions	(.24)	(.05)	(.15)	(2.51)	(1.56)
Net asset value, end of period	**$12.67**	**$14.28**	**$11.32**	**$ 7.79**	**$18.28**
Total Return (%)[b]	(9.90)	26.64	48.20	(49.96)	9.33
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	123	158	139	117	310
Ratio of expenses before expense reductions (%)	1.12	1.12	1.11	1.11	1.14
Ratio of expenses after expense reductions (%)	1.00	1.04	.99	.99	1.12
Ratio of net investment income (loss) (%)	.57	.42	.47	1.53[c]	.45[c]
Portfolio turnover rate (%)	31	39	53	21	19

[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 $0.05 and $0.02 per share and 0.37% and 0.09% of average daily net assets for the years ended December 31, 2008 and 2007, respectively.

Class B	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$14.03**	**$11.11**	**$ 7.65**	**$18.03**	**$17.93**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.05	.03	.02	.16[c]	.01[c]
Net realized and unrealized gain (loss)	(1.43)	2.90	3.57	(8.07)	1.61
Total from investment operations	(1.38)	2.93	3.59	(7.91)	1.62
Less distributions from:					
Net investment income	(.20)	(.01)	(.13)	—	(.19)
Net realized gains	—	—	—	(2.47)	(1.33)
Total distributions	(.20)	(.01)	(.13)	(2.47)	(1.52)
Net asset value, end of period	**$12.45**	**$14.03**	**$11.11**	**$ 7.65**	**$18.03**
Total Return (%)[b]	(10.08)	26.38	47.66	(50.16)	8.92
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	2	7	5	12
Ratio of expenses before expense reductions (%)	1.38	1.34	1.42	1.42	1.53
Ratio of expenses after expense reductions (%)	1.25	1.26	1.30	1.30	1.50
Ratio of net investment income (loss) (%)	.32	.20	.16	1.21[c]	.07[c]
Portfolio turnover rate (%)	31	39	53	21	19

[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 $0.05 and $0.02 per share and 0.37% and 0.09% of average daily net assets for the years ended December 31, 2008 and 2007, respectively.

Notes to Financial Statements

A. Organization and 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 five diversified funds: DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP (formerly DWS Global Opportunities VIP) and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS Global Small Cap Growth VIP. The Series is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and recordkeeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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. For certain international equity securities, in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Taxes. The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares.

Additionally, based on the Series' understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which the Fund invests, the Fund will provide for foreign taxes, and where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its 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 the Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

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

At December 31, 2011, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 821,499
Undistributed long-term capital gains	$ 6,713,507
Net unrealized appreciation (depreciation) on investments	$ 24,184,372

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

	Years Ended December 31, 2011	2010
Distributions from ordinary Income*	$ 2,545,467	$ 572,620

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment securities (excluding short-term investments) aggregated $45,310,552 and $64,900,098, respectively.

C. Related Parties

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

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

First $500 million of average daily net assets	.890%
Next $500 million of average daily net assets	.875%
Next $1 billion of average daily net assets	.860%
Over $2 billion of average daily net assets	.845%

For the period from January 1, 2011 through September 30, 2011, the Advisor, the underwriter and accounting agent had 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) of each class as follows:

Class A	1.00%
Class B	1.40%

Effective from October 1, 2011 through September 30, 2012, the Advisor, the underwriter and accounting agent has 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) of each class as follows:

Class A	.99%
Class B	1.24%

Accordingly, for the year ended December 31, 2011, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $180,881, and the amount charged aggregated $1,127,955, which was equivalent to an annual effective rate of 0.77% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $147,060, of which $10,750 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Waived	Unpaid at December 31, 2011
Class A	$ 443	$ 443	$ —
Class B	105	—	25
	$ 548	**$ 443**	**$ 25**

Distribution Service Agreement. 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. For the year ended December 31, 2011, the Distribution Service Fee aggregated $5,368, of which $403 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $15,562, of which $3,089 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Effective July 14, 2011, Deutsche Bank AG serves as securities lending agent for the Fund. For the period from July 14, 2011 through December 31, 2011, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $30.

D. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls or delayed settlements and may have prices more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

E. Ownership of the Fund

Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 48%, 18% and 11%. One participating insurance company was an owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 91%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

Report of Independent Registered Public Accounting Firm

To the Trustees of DWS Variable Series I and the Shareholders of DWS Global Small Cap Growth VIP (formerly DWS Global Opportunities 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 Global Opportunities VIP (the "Fund") (formerly DWS Global Opportunities VIP) at December 31, 2011 and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with 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, 2011 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 15, 2012

PricewaterhouseCoopers LLP

Information About Your Fund's Expenses

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 856.70	$ 855.70
Expenses Paid per $1,000*	$ 4.68	$ 5.85

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,020.16	$1,018.90
Expenses Paid per $1,000*	$ 5.09	$ 6.36

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

Annualized Expense Ratios	Class A	Class B
DWS Variable Series I — DWS Global Small Cap Growth VIP	1.00%	1.25%

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

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

Tax Information

(Unaudited)

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $7,385,000 as capital gain dividends for its year ended December 31, 2011, of which 100% represents 15% rate gains.

For corporate shareholders of the Fund, 22% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2011 qualified for the 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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Global Small Cap Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS'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, DWS provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 1st 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-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2010.

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 DWS 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 a 0.10% fee paid to DWS 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, 2010). 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, 2010) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 DWS helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

DWS INVESTMENTS
Deutsche Bank Group

VS1gloscg-2 (R-025821-1 2/12)

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES I

DWS Growth & Income VIP

DWS INVESTMENTS
Deutsche Bank Group

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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Fund management could be wrong in its analysis of industries, companies, economic trends and favor a security that underperforms the market. Stocks may decline in value. The fund may lend securities to approved institutions. See the prospectus for details.

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

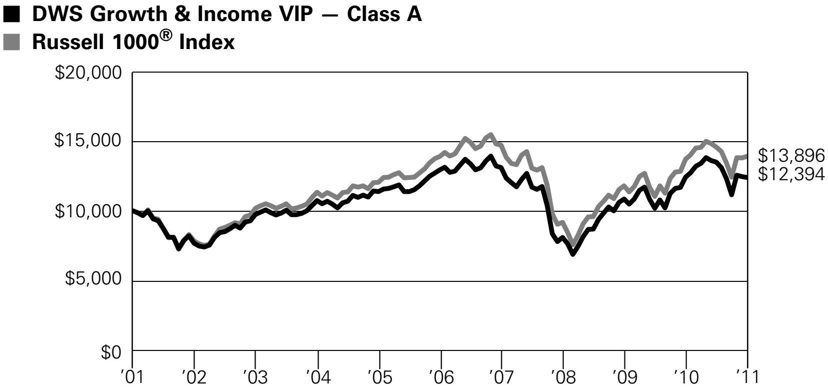
Performance Summary

December 31, 2011

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 0.63% and 0.88% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment



Yearly periods ended December 31

The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

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

Comparative Results

DWS Growth & Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,986	$15,324	$9,581	$12,394
	Average annual total return	–0.14%	15.29%	–0.85%	2.17%
Russell 1000 Index	Growth of $10,000	$10,150	$15,134	$9,990	$13,896
	Average annual total return	1.50%	14.81%	–0.02%	3.34%

DWS Growth & Income VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,960	$15,190	$9,468	$12,066
	Average annual total return	–0.40%	14.95%	–1.09%	1.90%
Russell 1000 Index	Growth of $10,000	$10,150	$15,134	$9,990	$13,896
	Average annual total return	1.50%	14.81%	–0.02%	3.34%

The growth of $10,000 is cumulative.

Management Summary

Despite heightened volatility in the second half of the year, U.S. equities — as gauged by the Fund's benchmark, the Russell 1000® Index — produced a narrow gain of 1.50% in 2011.[1] The Fund returned –0.14% (Class A shares, unadjusted for contract charges), but it modestly underperformed the benchmark.

The Fund's stock selection process worked best in the health care sector, where we held a number of companies whose steady fundamentals enabled them to outperform in an unstable environment. Our top performers in health care were the pharmaceutical giant Bristol-Myers Squibb Co., the benefits providers UnitedHealth Group, Inc. and Humana, Inc., and the biotechnology company Biogen Idec, Inc. Our stock selection also added value in the financial sector, where the largest contributions to performance came from our underweights in major banking and brokerage stocks that lagged the broader sector by a substantial margin.[2] The consumer staples and consumer discretionary sectors were also areas of strength for the Fund.[3,4]

Unfortunately, these positives were outweighed by our underperformance in other segments of the market. The largest shortfall occurred in information technology, where our positions in Computer Sciences Corp. and Vishay Intertechnology, Inc. lagged significantly. The materials and industrials sectors also proved to be challenging areas for the Fund.

As we move into 2012, we believe that uncertainty continues to hang over the U.S. equity market. Questions about the direction of economic growth, the ultimate resolution of the European debt crisis and the ability of China's government to engineer a "soft landing" in the country's economy are all issues that will likely have an impact on market performance. At the same time, we believe that the combination of improving earnings growth and reasonable valuations for the overall market provides a favorable backdrop for bottom-up stock selection.

Robert Wang
Russell Shtern, CFA

Portfolio Managers, QS Investors, LLC, Subadvisor to the Fund

1 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 U.S. 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 do not reflect fees or expenses and it is not possible to invest directly into an index.

2 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

3 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

4 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/11**	**12/31/10**
Information Technology	20%	19%
Financials	17%	17%
Health Care	14%	14%
Energy	13%	11%
Consumer Discretionary	10%	11%
Industrials	9%	12%
Consumer Staples	9%	7%
Materials	6%	5%
Utilities	1%	2%
Telecommunication Services	1%	2%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 98.8%		
Consumer Discretionary 10.0%		
Auto Components 0.3%		
Goodyear Tire & Rubber Co.*	14,300	202,631
Lear Corp.	2,100	83,580
		286,211
Automobiles 0.6%		
General Motors Co.*	26,200	**531,074**
Hotels Restaurants & Leisure 1.0%		
Carnival Corp.	5,100	166,464
Starbucks Corp.	11,300	519,913
Wyndham Worldwide Corp.	6,000	226,980
		913,357
Household Durables 0.4%		
Garmin Ltd.	3,100	123,411
Whirlpool Corp.	4,400	208,780
		332,191
Leisure Equipment & Products 0.1%		
Polaris Industries, Inc. (a)	1,300	**72,774**
Media 2.9%		
CBS Corp. "B"	37,400	1,015,036
Discovery Communications, Inc. "A"*	1,900	77,843
Interpublic Group of Companies, Inc.	15,100	146,923
McGraw-Hill Companies, Inc.	3,100	139,407
News Corp. "A"	21,000	374,640
Time Warner, Inc.	13,500	487,890
Viacom, Inc. "B"	5,500	249,755
		2,491,494
Multiline Retail 1.7%		
Dillard's, Inc. "A" (a)	11,907	534,386
Macy's, Inc.	28,000	901,040
Sears Holdings Corp.* (a)	2,400	76,272
		1,511,698
Specialty Retail 1.8%		
Aaron's, Inc.	3,400	90,712
Best Buy Co., Inc.	29,900	698,763
Foot Locker, Inc.	3,600	85,824
Limited Brands, Inc.	11,700	472,095
Orchard Supply Hardware Stores Corp. "A"*	45	187
The Gap, Inc.	12,200	226,310
		1,573,891
Textiles, Apparel & Luxury Goods 1.2%		
VF Corp.	8,000	**1,015,920**
Consumer Staples 8.6%		
Food & Staples Retailing 1.8%		
Costco Wholesale Corp.	4,100	341,612
CVS Caremark Corp.	26,200	1,068,436
Whole Foods Market, Inc.	2,200	153,076
		1,563,124
Food Products 3.4%		
Archer-Daniels-Midland Co.	6,000	171,600
Bunge Ltd.	2,300	131,560
Fresh Del Monte Produce, Inc.	3,100	77,531
Kraft Foods, Inc. "A"	38,400	1,434,624
Smithfield Foods, Inc.*	4,800	116,544
Tyson Foods, Inc. "A"	48,800	1,007,232
		2,939,091
Household Products 0.5%		
Kimberly-Clark Corp.	2,900	213,324
Procter & Gamble Co.	3,900	260,169
		473,493
Personal Products 0.7%		
Avon Products, Inc.	6,200	108,314
Herbalife Ltd.	7,300	377,191
Nu Skin Enterprises, Inc. "A"	2,200	106,854
		592,359
Tobacco 2.2%		
Philip Morris International, Inc.	24,100	**1,891,368**
Energy 13.6%		
Energy Equipment & Services 2.1%		
Nabors Industries Ltd.*	8,700	150,858
National Oilwell Varco, Inc. (a)	18,900	1,285,011
Transocean Ltd.	9,300	357,027
		1,792,896
Oil, Gas & Consumable Fuels 11.5%		
Alpha Natural Resources, Inc.*	23,400	478,062
Apache Corp.	4,300	389,494
Canadian Natural Resources Ltd.	8,700	325,119
Chevron Corp. (a)	13,300	1,415,120
ConocoPhillips (a)	23,900	1,741,593
CVR Energy, Inc.*	9,100	170,443
Denbury Resources, Inc.*	22,700	342,770
Hess Corp.	7,500	426,000
HollyFrontier Corp.	5,000	117,000
Marathon Oil Corp.	33,600	983,472
Marathon Petroleum Corp.	4,300	143,147
Murphy Oil Corp.	3,800	211,812
Occidental Petroleum Corp.	1,200	112,440
Petroleo Brasileiro SA (ADR)	17,500	434,875
Talisman Energy, Inc.	10,100	128,775
Tesoro Corp.* (a)	42,900	1,002,144
Valero Energy Corp.	65,100	1,370,355
W&T Offshore, Inc. (a)	5,300	112,413
Western Refining, Inc.*	9,100	120,939
		10,025,973
Financials 16.5%		
Capital Markets 1.8%		
American Capital Ltd.*	9,900	66,627
Bank of New York Mellon Corp.	8,400	167,244
E*TRADE Financial Corp.*	18,900	150,444
Morgan Stanley	18,300	276,879
Northern Trust Corp.	2,600	103,116
State Street Corp.	19,600	790,076
		1,554,386
Commercial Banks 3.2%		
Banco Santander Brasil SA (ADR)	12,400	100,936
Bank of Montreal	2,000	109,620
BB&T Corp. (a)	6,600	166,122
Comerica, Inc.	8,800	227,040
KeyCorp	109,200	839,748
Regions Financial Corp.	65,400	281,220

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

	Shares	Value ($)
SunTrust Banks, Inc.	12,300	217,710
Zions Bancorp. (a)	51,300	835,164
		2,777,560
Consumer Finance 2.7%		
American Express Co.	4,400	207,548
Capital One Financial Corp.	29,600	1,251,784
Discover Financial Services	39,300	943,200
		2,402,532
Diversified Financial Services 2.7%		
Bank of America Corp.	73,800	410,328
Citigroup, Inc.	16,800	442,008
CME Group, Inc. "A"	800	194,936
IntercontinentalExchange, Inc.*	3,800	458,090
JPMorgan Chase & Co.	10,800	359,100
The NASDAQ OMX Group, Inc.*	19,600	480,396
		2,344,858
Insurance 5.7%		
ACE Ltd.	15,500	1,086,860
Aflac, Inc.	28,200	1,219,932
Allied World Assurance Co. Holdings AG	3,200	201,376
Allstate Corp.	5,800	158,978
American International Group, Inc.* (a)	8,400	194,880
Arch Capital Group Ltd.*	3,100	115,413
Chubb Corp. (a)	9,000	622,980
Genworth Financial, Inc. "A"*	11,300	74,015
Hartford Financial Services Group, Inc.	8,800	143,000
Lincoln National Corp.	7,900	153,418
MetLife, Inc.	12,900	402,222
PartnerRe Ltd.	2,200	141,262
The Travelers Companies, Inc.	5,000	295,850
Torchmark Corp.	1,800	78,102
Validus Holdings Ltd.	2,300	72,450
		4,960,738
Real Estate Investment Trusts 0.4%		
Rayonier, Inc. (REIT)	3,250	145,048
Simon Property Group, Inc. (REIT)	800	103,152
Weyerhaeuser Co.	5,700	106,419
		354,619
Health Care 14.1%		
Biotechnology 0.7%		
Biogen Idec, Inc.*	5,800	**638,290**
Health Care Providers & Services 5.7%		
Aetna, Inc.	29,000	1,223,510
Cardinal Health, Inc.	1,800	73,098
Humana, Inc.	14,700	1,287,867
UnitedHealth Group, Inc.	28,200	1,429,176
WellPoint, Inc.	14,300	947,375
		4,961,026
Pharmaceuticals 7.7%		
Abbott Laboratories	6,500	365,495
Bristol-Myers Squibb Co.	33,800	1,191,112
Eli Lilly & Co.	33,700	1,400,572
Forest Laboratories, Inc.*	15,600	472,056
Merck & Co., Inc.	20,300	765,310
Par Pharmaceutical Companies, Inc.*	4,000	130,920
Pfizer, Inc.	93,100	2,014,684
Teva Pharmaceutical Industries Ltd. (ADR)	3,500	141,260
Watson Pharmaceuticals, Inc.*	3,300	199,122
		6,680,531
Industrials 8.7%		
Aerospace & Defense 3.4%		
General Dynamics Corp.	14,800	982,868
Honeywell International, Inc.	6,400	347,840
Northrop Grumman Corp.	21,500	1,257,320
Raytheon Co.	7,200	348,336
		2,936,364
Airlines 0.7%		
Alaska Air Group, Inc.*	3,600	270,324
Southwest Airlines Co.	17,200	147,232
United Continental Holdings, Inc.* (a)	12,600	237,762
		655,318
Construction & Engineering 0.9%		
Chicago Bridge & Iron Co. NV	5,400	204,120
EMCOR Group, Inc.	4,900	131,369
Fluor Corp.	6,800	341,700
KBR, Inc.	4,600	128,202
		805,391
Industrial Conglomerates 1.1%		
Tyco International Ltd.	20,000	**934,200**
Machinery 1.1%		
AGCO Corp.*	8,500	365,245
Parker Hannifin Corp.	4,900	373,625
SPX Corp.	1,600	96,432
Timken Co.	2,300	89,033
		924,335
Professional Services 0.2%		
Manpower, Inc.	2,700	96,525
Robert Half International, Inc.	4,000	113,840
		210,365
Road & Rail 0.7%		
Ryder System, Inc.	10,700	**568,598**
Trading Companies & Distributors 0.6%		
W.W. Grainger, Inc.	3,000	**561,570**
Information Technology 19.7%		
Communications Equipment 2.3%		
Cisco Systems, Inc.	47,900	866,032
Motorola Solutions, Inc.	6,000	277,740
Nokia Oyj (ADR) (a)	184,300	888,326
		2,032,098
Computers & Peripherals 4.1%		
Apple, Inc.*	1,500	607,500
Dell, Inc.*	107,100	1,566,873
Lexmark International, Inc. "A"	5,800	191,806
SanDisk Corp.*	6,000	295,260
Seagate Technology PLC	13,600	223,040
Western Digital Corp.*	22,500	696,375
		3,580,854
Electronic Equipment, Instruments & Components 1.3%		
Arrow Electronics, Inc.*	8,200	306,762
Avnet, Inc.*	6,200	192,758
Tech Data Corp.*	6,100	301,401
Vishay Intertechnology, Inc.* (a)	32,600	293,074
		1,093,995

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

	Shares	Value ($)
Internet Software & Services 2.6%		
AOL, Inc.*	5,300	80,030
eBay, Inc.*	34,600	1,049,418
IAC/InterActiveCorp. (a)	18,100	771,060
Yahoo!, Inc.*	23,600	380,668
		2,281,176
IT Services 4.3%		
Automatic Data Processing, Inc.	13,300	718,333
Computer Sciences Corp.	12,624	299,189
Fiserv, Inc.*	4,600	270,204
International Business Machines Corp.	11,400	2,096,232
Total System Services, Inc.	8,000	156,480
Western Union Co.	8,600	157,036
		3,697,474
Semiconductors & Semiconductor Equipment 3.1%		
Applied Materials, Inc.	92,600	991,746
Cree, Inc.*	5,000	110,200
GT Advanced Technologies, Inc.* (a)	12,600	91,224
Intel Corp.	14,100	341,925
Kulicke & Soffa Industries, Inc.*	12,600	116,550
Micron Technology, Inc.*	106,194	667,960
NVIDIA Corp.*	18,400	255,024
OmniVision Technologies, Inc.*	9,400	115,009
		2,689,638
Software 2.0%		
Activision Blizzard, Inc.	66,000	813,120
ANSYS, Inc.*	3,800	217,664
Autodesk, Inc.*	2,500	75,825
Citrix Systems, Inc.*	2,100	127,512
Electronic Arts, Inc.*	21,200	436,720
Microsoft Corp.	1,000	25,960
SAP AG (ADR)	1,600	84,720
		1,781,521
Materials 5.8%		
Chemicals 2.5%		
CF Industries Holdings, Inc.	8,300	1,203,334
Huntsman Corp.	9,200	92,000
LyondellBasell Industries NV "A"	6,000	194,940
Monsanto Co.	6,700	469,469
OM Group, Inc.*	3,400	76,126
PPG Industries, Inc.	1,800	150,282
		2,186,151
Metals & Mining 2.5%		
Agnico-Eagle Mines Ltd.	4,100	148,912
ArcelorMittal (NY Registered Shares)	20,900	380,171
BHP Billiton Ltd. (ADR)	3,600	254,268
BHP Billiton PLC (ADR)	3,800	221,882
Coeur d'Alene Mines Corp.*	4,100	98,974
Hecla Mining Co.	18,800	98,324
Kinross Gold Corp.	19,300	220,020
Rio Tinto PLC (ADR)	6,400	313,088
United States Steel Corp. (a)	15,500	410,130
		2,145,769
Paper & Forest Products 0.8%		
Domtar Corp.	7,300	583,708
International Paper Co.	5,400	159,840
		743,548
Telecommunication Services 0.8%		
Diversified Telecommunication Services 0.3%		
Verizon Communications, Inc.	5,900	**236,708**
Wireless Telecommunication Services 0.5%		
China Mobile Ltd. (ADR)	3,500	169,715
NII Holdings, Inc.*	6,000	127,800
Sprint Nextel Corp.*	50,000	117,000
		414,515
Utilities 1.0%		
Independent Power Producers & Energy Traders 0.5%		
AES Corp.*	7,500	88,800
NRG Energy, Inc.* (a)	21,741	393,947
		482,747
Multi-Utilities 0.5%		
Ameren Corp.	12,300	**407,499**
Total Common Stocks (Cost $78,998,900)		**86,051,288**

Preferred Stock 0.0%

Consumer Discretionary

	Shares	Value ($)
Specialty Retail		
Orchard Supply Hardware Stores Corp. Series A* (Cost $200)	45	**187**

Securities Lending Collateral 9.8%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.18% (b) (c) (Cost $8,502,610)	8,502,610	**8,502,610**

Cash Equivalents 0.9%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (b) (Cost $787,044)	787,044	**787,044**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $88,288,754)†	109.5	**95,341,129**
Other Assets and Liabilities, Net	(9.5)	**(8,262,651)**
Net Assets	100.0	**87,078,478**

* Non-income producing security.

† The cost for federal income tax purposes was $89,289,406. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $6,051,723. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $9,024,116 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,972,393.

(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, 2011 amounted to $8,290,440, which is 9.5% 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 Fund is net of borrower rebates.

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

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 E-Mini Index	USD	3/16/2012	16	1,002,080	**22,733**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to the Derivatives section of Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks and/or Other Equity Investments (d)	$ 86,051,101	$ —	$ 374	$ 86,051,475
Short-Term Investments (d)	9,289,654	—	—	9,289,654
Derivatives (e)	22,733	—	—	22,733
Total	**$ 95,363,488**	**$ —**	**$ 374**	**$ 95,363,862**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(d) See Investment Portfolio for additional detailed categorizations.

(e) Derivatives include unrealized appreciation (depreciation) on open futures contracts.

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Common Stocks and/or Other Equity Investments		
	Common Stocks	Preferred Stocks	Total
Balance as of December 31, 2010	$ —	$ —	$ —
Total realized gains (loss)	—	—	—
Change in unrealized appreciation (depreciation)	(13)	(13)	(26)
Amortization premium/discount	—	—	—
Purchases	200	200	400
(Sales)	—	—	—
Transfers into Level 3	—	—	—
Transfers (out) of Level 3	—	—	—
Balance as of December 31, 2011	**$ 187**	**$ 187**	**$ 374**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2011	**$ (13)**	**$ (13)**	**$ (26)**

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

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $78,999,100) — including $8,290,440 of securities loaned	$ 86,051,475
Investment in Daily Assets Fund Institutional (cost $8,502,610)*	8,502,610
Investment in Central Cash Management Fund (cost $787,044)	787,044
Total investments in securities, at value (cost $88,288,754)	95,341,129
Cash	825
Foreign currency, at value (cost $1,798)	1,802
Deposits with broker for futures contracts	209,478
Receivable for Fund shares sold	124,157
Dividends receivable	99,981
Interest receivable	1,414
Receivable for variation margin on futures contracts	22,733
Foreign taxes recoverable	240
Other assets	1,867
Total assets	95,803,626

Liabilities	
Payable upon return of securities loaned	8,502,610
Payable for Fund shares redeemed	117,520
Accrued management fee	28,791
Other accrued expenses and payables	76,227
Total liabilities	8,725,148
Net assets, at value	**$ 87,078,478**

Net Assets Consist of	
Undistributed net investment income	1,129,614
Net unrealized appreciation (depreciation) on:	
Investments	7,052,375
Futures	22,733
Foreign currency	18
Accumulated net realized gain (loss)	(42,040,554)
Paid-in capital	120,914,292
Net assets, at value	**$ 87,078,478**
Class A	
Net Asset Value, offering and redemption price per share ($85,480,270 ÷ 11,456,872 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 7.46**
Class B	
Net Asset Value, offering and redemption price per share ($1,598,208 ÷ 214,502 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 7.45**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $1,931)	$ 1,781,312
Income distributions — Central Cash Management Fund	1,008
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	16,908
Total income	1,799,228
Expenses:	
Management fee	373,948
Administration fee	95,884
Services to shareholders	2,885
Distribution service fee (Class B)	4,543
Custodian fee	18,641
Audit fees	41,150
Legal fees	21,044
Reports to shareholders	39,120
Trustees' fees and expenses	3,895
Other	7,701
Total expenses	608,811
Net investment income	**1,190,417**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	5,661,045
Futures	126,007
Foreign currency	(49)
	5,787,003
Change in net unrealized appreciation (depreciation) on:	
Investments	(6,743,722)
Futures	8,223
Foreign currency	(52)
	(6,735,551)
Net gain (loss)	**(948,548)**
Net increase (decrease) in net assets resulting from operations	**$ 241,869**

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, 2011	2010
Operations:		
Net investment income	$ 1,190,417	$ 1,286,371
Net realized gain (loss)	5,787,003	10,731,923
Change in net unrealized appreciation (depreciation)	(6,735,551)	860,787
Net increase (decrease) in net assets resulting from operations	241,869	12,879,081
Distributions to shareholders from:		
Net investment income:		
Class A	(1,231,321)	(1,597,628)
Class B	(19,225)	(27,222)
Total distributions	(1,250,546)	(1,624,850)
Fund share transactions:		
Class A		
Proceeds from shares sold	6,626,996	5,336,052
Reinvestment of distributions	1,231,321	1,597,628
Payments for shares redeemed	(19,720,206)	(20,642,306)
Net increase (decrease) in net assets from Class A share transactions	(11,861,889)	(13,708,626)
Class B		
Proceeds from shares sold	79,702	68,140
Reinvestment of distributions	19,225	27,222
Payments for shares redeemed	(429,706)	(453,581)
Net increase (decrease) in net assets from Class B share transactions	(330,779)	(358,219)
Increase (decrease) in net assets	(13,201,345)	(2,812,614)
Net assets at beginning of period	100,279,823	103,092,437
Net assets at end of period (including undistributed net investment income of $1,129,614 and $1,201,576, respectively)	**$ 87,078,478**	**$ 100,279,823**

Other Information	2011	2010
Class A		
Shares outstanding at beginning of period	13,004,152	15,048,001
Shares sold	857,669	774,532
Shares issued to shareholders in reinvestment of distributions	148,352	219,153
Shares redeemed	(2,553,301)	(3,037,534)
Net increase (decrease) in Class A shares	(1,547,280)	(2,043,849)
Shares outstanding at end of period	**11,456,872**	**13,004,152**
Class B		
Shares outstanding at beginning of period	256,466	309,228
Shares sold	10,552	10,025
Shares issued to shareholders in reinvestment of distributions	2,316	3,734
Shares redeemed	(54,832)	(66,521)
Net increase (decrease) in Class B shares	(41,964)	(52,762)
Shares outstanding at end of period	**214,502**	**256,466**

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

Financial Highlights

Class A	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$ 7.56**	**$ 6.71**	**$ 5.12**	**$10.81**	**$10.94**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.10	.09	.10	.10	.13
Net realized and unrealized gain (loss)	(.10)	.87	1.61	(3.45)	.02
Total from investment operations	.00	.96	1.71	(3.35)	.15
Less distributions from:					
Net investment income	(.10)	(.11)	(.12)	(.18)	(.13)
Net realized gains	—	—	—	(2.16)	(.15)
Total distributions	(.10)	(.11)	(.12)	(2.34)	(.28)
Net asset value, end of period	**$ 7.46**	**$ 7.56**	**$ 6.71**	**$ 5.12**	**$10.81**
Total Return (%)	(.14)	14.40[b]	34.15[b]	(38.31)[b]	1.36[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	85	98	101	94	196
Ratio of expenses before expense reductions (%)	.63	.63	.63	.60	.57
Ratio of expenses after expense reductions (%)	.63	.60	.54	.54	.56
Ratio of net investment income (loss) (%)	1.25	1.32	1.74	1.34	1.18
Portfolio turnover rate (%)	215	145	82	130	310

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, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$ 7.55**	**$ 6.70**	**$ 5.12**	**$10.77**	**$10.90**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.08	.07	.08	.08	.09
Net realized and unrealized gain (loss)	(.10)	.87	1.60	(3.42)	.02
Total from investment operations	(.02)	.94	1.68	(3.34)	.11
Less distributions from:					
Net investment income	(.08)	(.09)	(.10)	(.15)	(.09)
Net realized gains	—	—	—	(2.16)	(.15)
Total distributions	(.08)	(.09)	(.10)	(2.31)	(.24)
Net asset value, end of period	**$ 7.45**	**$ 7.55**	**$ 6.70**	**$ 5.12**	**$10.77**
Total Return (%)	(.40)	14.12[b]	33.64[b]	(38.29)[b]	1.00[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	2	2	2	15
Ratio of expenses before expense reductions (%)	.88	.88	.89	.82	.95
Ratio of expenses after expense reductions (%)	.88	.85	.80	.77	.92
Ratio of net investment income (loss) (%)	.99	1.07	1.48	1.12	.82
Portfolio turnover rate (%)	215	145	82	130	310

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.

Notes to Financial Statements

A. Organization and 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 five diversified funds: DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP (formerly DWS Global Opportunities VIP) and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS Growth & Income VIP. The Series is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and recordkeeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Federal Income Taxes. The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $40,840,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($11,719,000) and December 31, 2017 ($29,121,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2011 through December 31, 2011, the Fund elects to defer qualified late year losses of approximately $177,000 of net short-term realized capital losses. As permitted by tax regulations, the Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its 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 the Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

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

At December 31, 2011, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 1,129,613
Capital loss carryforwards	$ (40,840,000)
Net unrealized appreciation (depreciation) on investments	$ 6,051,723

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

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 1,250,546	$ 1,624,850

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Derivative Instruments

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund entered into futures contracts in circumstances where portfolio management believed they offered 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.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,002,000 to $1,381,000.

The following table summarizes the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	Futures Contracts
Equity Contracts (a)	$ 22,733

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Futures Contracts
Equity Contracts (a)	$ 126,007

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

(a) Net realized gain (loss) from futures

Change in Net Unrealized Appreciation (Depreciation)	Futures Contracts
Equity Contracts (a)	$ 8,223

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

(a) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment securities (excluding short-term investments) aggregated $205,235,881 and $217,370,307, respectively.

D. Related Parties

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

QS Investors, LLC ("QS Investors") serves as subadvisor. As a subadvisor to the Fund, QS Investors makes investment decisions and buys and sells securities for the Fund. QS Investors is paid by the Advisor for the services QS Investors provides to the Fund.

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

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

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.39% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $95,884, of which $7,382 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders		Total Aggregated		Unpaid at December 31, 2011
Class A	$	475	$	119
Class B		85		20
	$	**560**	**$**	**139**

Distribution Service Agreement. 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. For the year ended December 31, 2011, the Distribution Service Fee aggregated $4,543, of which $343 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $14,596, of which $2,747 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Ownership of the Fund

Three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 34%, 27% and 15%. One participating insurance companies was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 86%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

G. Subsequent Event

Effective on or about May 1, 2012, the Fund will change its name to DWS Core Equity VIP. Consistent with the name change, under normal circumstances the Fund intends to invest at least 80% of total assets in equities, mainly common stocks.

Report of Independent Registered Public Accounting Firm

To the Trustees of DWS Variable Series I and the Shareholders of DWS Growth & Income 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 Growth & Income VIP (the "Fund") at December 31, 2011 and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with 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, 2011 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 15, 2012

PricewaterhouseCoopers LLP

Information About Your Fund's Expenses

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 918.70	$ 917.50
Expenses Paid per $1,000*	$ 3.10	$ 4.30
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,021.98	$1,020.72
Expenses Paid per $1,000*	$ 3.26	$ 4.53

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

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS Growth & Income VIP	.64%	.89%

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

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

Tax Information

(Unaudited)

For corporate shareholders, 100% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2011 qualified for the 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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Growth & Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DWS and QS Investors, LLC ("QS Investors") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS's and QS Investors'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, DWS and QS Investors provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. The Board also requested and received information regarding DWS's oversight of Fund sub-advisors, including QS Investors. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd 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 three-year period and has underperformed its benchmark in the one- and five-year periods ended December 31, 2010.

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 DWS and QS Investors 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 a 0.10% fee paid to DWS 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, 2010). With respect to the sub-advisory fee paid to QS Investors, the Board noted that the fee is paid by DWS 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, 2010) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS and QS Investors.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available. The Board did not consider the profitability of QS Investors with respect to the Fund. The Board noted that DWS pays QS Investors's fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DWS.

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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and QS Investors and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and QS Investors and their affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS and QS Investors 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 DWS and QS Investors related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DWS to the oversight of the investment sub-advisor's compliance program and compliance with the applicable fund policies and procedures.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1groinc-2 (R-025822-1 2/12)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES I

DWS International VIP

Deutsche Bank Group

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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Stocks may decline in value. The fund may lend securities to approved institutions. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., 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

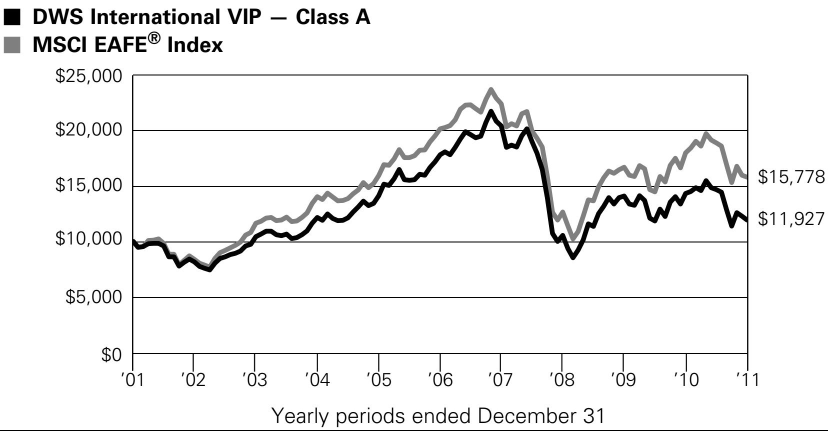
Performance Summary

December 31, 2011

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 1.00% and 1.27% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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 U.S. dollars using the London close foreign exchange rates.

Index returns do not reflect any fees or expenses and 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	$8,333	$11,307	$6,710	$11,927
	Average annual total return	–16.67%	4.18%	–7.67%	1.78%
MSCI EAFE® Index	Growth of $10,000	$8,786	$12,475	$7,852	$15,778
	Average annual total return	–12.14%	7.65%	–4.72%	4.67%

DWS International VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$8,323	$11,207	$6,626	$11,603
	Average annual total return	–16.77%	3.87%	–7.90%	1.50%
MSCI EAFE® Index	Growth of $10,000	$8,786	$12,475	$7,852	$15,778
	Average annual total return	–12.14%	7.65%	–4.72%	4.67%

The growth of $10,000 is cumulative.

On April 15, 2011, a new team took over portfolio management duties for the Fund and adopted a different approach to security selection and analysis. The transition to reflect the new approach occurred gradually over a period of 24 days and was fully implemented by May 10, 2011. Under the new approach, the investment team utilizes a proprietary investment process designed to identify attractive investment candidates generated by more than 5,000 equity analysts across the globe, who collectively cover over 10,000 securities. Based on these analysts' fundamental research, this process seeks to identify investments that may offer the potential for price appreciation.

International equities lost ground during 2011, as investor sentiment was pressured by concerns about slowing global economic growth, the aftereffects of the earthquake in Japan and the evolution of the debt crisis in Europe. The MSCI EAFE Index, which holds a weighting of over 40% in Continental Europe, finished the year with a total return of –12.14%.[1] The index trailed the 2.11% return of the U.S. market, as gauged by the Standard & Poor's 500® (S&P 500) Index, by a wide margin.[2] The Class A shares of DWS International VIP returned –16.67% (unadjusted for contract charges) during 2011, underperforming the MSCI EAFE Index.

The Fund lagged the benchmark before and after the management change. Before the management change (January 1, 2010–April 15, 2011), the Fund's performance was helped by stock selection in the financial and utilities sectors, but this was offset by its underperformance in the consumer discretionary, information technology and materials sectors, as well as below-benchmark weightings in consumer staples and financials.[3,4,5]

Following the transition to the new portfolio management team — keeping in mind that the investment team does not invest in stocks simply on the basis of their belonging to a particular sector — the Fund's stock selection process proved most effective in information technology, but it underperformed in consumer staples. The Fund's top individual contributors following the change were GlaxoSmithKline PLC, Dassault Systemes SA and SAP AG, while the leading individual detractors were Societe Generale and AXA SA.

Thomas Voecking
Jason E. Inzer
Portfolio Managers

1 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 U.S. dollars using the London close foreign exchange rates.

2 The Standard & Poor's 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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

3 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

4 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs and household products.

5 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life.

Portfolio Summary

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	97%	96%
Cash Equivalents	2%	—
Preferred Stocks	1%	4%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents)	**12/31/11**	**12/31/10**
Continental Europe	45%	41%
Japan	21%	20%
United Kingdom	15%	15%
Asia (excluding Japan)	9%	11%
Australia	9%	8%
Other	1%	5%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents)	**12/31/11**	**12/31/10**
Financials	27%	19%
Health Care	12%	6%
Information Technology	11%	6%
Industrials	11%	16%
Consumer Staples	8%	15%
Consumer Discretionary	8%	9%
Telecommunication Services	7%	6%
Utilities	6%	2%
Energy	6%	10%
Materials	4%	11%
	100%	100%

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

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 95.0%		
Australia 9.2%		
BHP Billiton Ltd.	43,000	1,517,840
National Australia Bank Ltd.	402,207	9,588,558
Newcrest Mining Ltd.	102,592	3,107,800
Wesfarmers Ltd.	38,691	1,165,970
Westfield Group (REIT) (Units)	143,000	1,142,757
Westpac Banking Corp.	47,000	959,346
Woolworths Ltd.	72,000	1,846,828
(Cost $21,949,111)		**19,329,099**
Denmark 1.3%		
Carlsberg AS "B"	23,639	1,669,552
Novo Nordisk AS "B"	9,508	1,093,855
(Cost $3,180,444)		**2,763,407**
Finland 0.8%		
Fortum Oyj	46,000	978,689
Nokia Corp.	151,000	729,675
(Cost $2,367,710)		**1,708,364**
France 12.2%		
AXA SA	410,857	5,294,896
Cap Gemini	31,400	976,700
Dassault Systemes SA	153,400	12,282,684
Klepierre (REIT)	34,000	965,944
Renault SA	101,000	3,481,291
Schneider Electric SA	31,948	1,669,628
Societe Generale	45,512	1,010,095
(Cost $31,527,837)		**25,681,238**
Germany 4.6%		
Adidas AG	12,400	806,543
Allianz SE (Registered)	4,600	439,625
Continental AG*	27,800	1,730,355
Hochtief AG	7,400	428,032
Lanxess AG	30,300	1,567,658
SAP AG	89,050	4,708,368
(Cost $12,368,150)		**9,680,581**
Hong Kong 3.3%		
BOC Hong Kong (Holdings) Ltd.	2,491,000	5,873,255
Li & Fung Ltd.	548,000	1,007,450
(Cost $8,381,565)		**6,880,705**
Israel 1.1%		
Bezeq Israeli Telecommunication Corp., Ltd. (Cost $2,637,845)	1,289,000	**2,364,363**
Italy 3.6%		
Snam Rete Gas SpA (Cost $9,194,270)	1,722,000	**7,568,828**
Japan 20.2%		
Bridgestone Corp.	35,000	792,248
Canon, Inc.	49,500	2,190,320
Fast Retailing Co., Ltd.	10,000	1,817,275
Honda Motor Co., Ltd.	103,992	3,166,794
INPEX Corp.	360	2,263,888
Kawasaki Kisen Kaisha Ltd.	410,000	738,858
Kyushu Electric Power Co., Inc.	76,000	1,088,347
Mitsubishi Corp.	232,909	4,696,614
Mitsubishi Electric Corp.	254,000	2,428,569
Mitsubishi Estate Co., Ltd.	196,000	2,924,308
Mitsubishi Heavy Industries Ltd.	106,000	451,140
Mitsubishi Tanabe Pharma Corp.	314,000	4,965,715
Mitsui Fudosan Co., Ltd.	70,000	1,018,757
Mitsui O.S.K Lines Ltd.	432,119	1,671,367
Mizuho Financial Group, Inc.	710,000	958,158
Nabtesco Corp.	55,000	999,543
Nidec Corp.	24,000	2,083,108
Nippon Electric Glass Co., Ltd.	94,000	933,892
Resona Holdings, Inc.	442,000	1,944,692
Softbank Corp.	59,400	1,747,633
Sony Corp.	52,000	937,147
Sumitomo Mitsui Financial Group, Inc.	30,500	848,545
Sumitomo Realty & Development Co., Ltd.	9,000	157,369
Terumo Corp.	26,000	1,223,045
Tokyo Electron Ltd.	7,300	370,880
Yamada Denki Co., Ltd.	4,800	326,138
(Cost $49,714,104)		**42,744,350**
Netherlands 8.9%		
European Aeronautic Defence & Space Co. NV	198,000	6,160,020
Heineken NV	118,000	5,447,521
ING Groep NV (CVA)*	210,857	1,502,616
Royal Dutch Shell PLC "B"	147,400	5,609,483
(Cost $20,567,938)		**18,719,640**
Norway 0.8%		
DnB NOR ASA (Cost $2,801,279)	172,000	**1,680,637**
Portugal 0.5%		
Banco Comercial Portugues SA "R"* (a) (Cost $1,423,632)	6,200,000	**1,086,281**
Singapore 5.0%		
CapitaLand Ltd.	565,000	960,013
CapitaMall Trust (REIT)	2,970,000	3,886,229
DBS Group Holdings Ltd.	223,000	1,975,412
Golden Agri-Resources Ltd.	6,900,000	3,792,907
(Cost $11,660,703)		**10,614,561**
Spain 0.9%		
Red Electrica Corporacion SA (a) (Cost $2,841,395)	44,000	**1,877,415**
Sweden 4.0%		
Investor AB "B"	55,000	1,022,016
TeliaSonera AB	1,106,000	7,492,889
(Cost $9,640,411)		**8,514,905**
Switzerland 4.4%		
Nestle SA (Registered)	42,000	2,411,338
Syngenta AG (Registered)*	2,000	588,635
Zurich Financial Services AG*	28,200	6,367,993
(Cost $10,869,032)		**9,367,966**
United Kingdom 14.2%		
AMEC PLC	70,338	986,861
Anglo American PLC	19,400	715,004
BHP Billiton PLC	11,300	328,560
BP PLC	255,000	1,818,470
Centrica PLC	263,000	1,180,371
GlaxoSmithKline PLC	756,000	17,238,782
Inmarsat PLC	297,000	1,859,285
Old Mutual PLC	1,738,041	3,637,317

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

	Shares	Value ($)
Tesco PLC	70,000	438,204
Tullow Oil PLC	46,000	999,890
Vodafone Group PLC	251,000	696,866
(Cost $29,671,285)		**29,899,610**
Total Common Stocks (Cost $230,796,711)		**200,481,950**

Preferred Stock 0.9%

Germany

	Shares	Value ($)
Porsche Automobil Holding SE (Cost $2,338,860)	34,000	**1,819,518**

Securities Lending Collateral 1.5%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.18% (b) (c) (Cost $3,257,029)	3,257,029	**3,257,029**

Cash Equivalents 2.0%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (b) (Cost $4,305,280)	4,305,280	**4,305,280**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $240,697,880)†	99.4	**209,863,777**
Other Assets and Liabilities, Net	0.6	**1,185,478**
Net Assets	100.0	**211,049,255**

* Non-income producing security.

† The cost for federal income tax purposes was $241,846,317. At December 31, 2011, net unrealized depreciation for all securities based on tax cost was $31,982,540. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,198,252 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $34,180,792.

(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, 2011 amounted to $2,933,650, which is 1.4% of net assets.

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

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

CVA: Certificaten Van Aandelen

REIT: Real Estate Investment Trust

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 E-Mini Index	USD	3/16/2012	150	9,394,500	**174,375**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to the Derivatives section of Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common and Preferred Stocks (d)				
Australia	$ —	$ 19,329,099	$ —	$ 19,329,099
Denmark	—	2,763,407	—	2,763,407
Finland	—	1,708,364	—	1,708,364
France	—	25,681,238	—	25,681,238
Germany	—	11,500,099	—	11,500,099
Hong Kong	—	6,880,705	—	6,880,705
Israel	—	2,364,363	—	2,364,363
Italy	—	7,568,828	—	7,568,828
Japan	—	42,744,350	—	42,744,350
Netherlands	—	18,719,640	—	18,719,640
Norway	—	1,680,637	—	1,680,637
Portugal	—	1,086,281	—	1,086,281
Singapore	—	10,614,561	—	10,614,561
Spain	—	1,877,415	—	1,877,415
Sweden	—	8,514,905	—	8,514,905
Switzerland	—	9,367,966	—	9,367,966
United Kingdom	—	29,899,610	—	29,899,610
Short-Term Investments (d)	7,562,309	—	—	7,562,309
Derivatives (e)	174,375	—	—	174,375
Total	**$ 7,736,684**	**$ 202,301,468**	**$ —**	**$ 210,038,152**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(d) See Investment Portfolio for additional detailed categorizations.

(e) Derivatives include unrealized appreciation (depreciation) on futures contracts.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $233,135,571) — including $2,933,650 of securities loaned	$	202,301,468
Investment in Daily Assets Fund Institutional (cost $3,257,029)		3,257,029
Investment in Central Cash Management Fund (cost $4,305,280)		4,305,280
Total investments, at value (cost $240,697,880)		209,863,777
Cash		96,750
Foreign currency, at value (cost $3,645,485)		3,464,979
Deposit with broker for futures contracts		600,000
Receivable for Fund shares sold		118,986
Interest receivable		2,146
Dividends receivable		384,162
Foreign taxes recoverable		203,160
Other assets		3,947
Total assets		214,737,907
Liabilities		
Payable for Fund shares redeemed		110,573
Payable upon return of securities loaned		3,257,029
Payable for daily variation margin on futures contracts		36,000
Accrued management fee		142,449
Other accrued expenses and payables		142,601
Total liabilities		3,688,652
Net assets, at value	**$**	**211,049,255**
Net Assets Consist of		
Undistributed net investment income		4,638,574
Net unrealized appreciation (depreciation) on:		
Investments		(30,834,103)
Futures		174,375
Foreign currency		(170,865)
Accumulated net realized gain (loss)		(131,106,837)
Paid-in capital		368,348,111
Net assets, at value	**$**	**211,049,255**
Class A		
Net Asset Value, offering and redemption price per share ($210,813,840 ÷ 31,267,358 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.74**
Class B		
Net Asset Value, offering and redemption price per share ($235,415 ÷ 34,893 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.75**

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $740,538)	$	7,285,873
Interest		23,812
Income distributions — Central Cash Management Fund		8,355
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		279,614
Total income		7,597,654
Expenses:		
Management fee		2,010,030
Administration fee		254,434
Services to shareholders		7,103
Custodian fee		76,331
Distribution service fee (Class B)		741
Professional fees		71,079
Reports to shareholders		79,973
Trustees' fees and expenses		9,851
Other		48,242
Total expenses		2,557,784
Net investment income (loss)		**5,039,870**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		20,809,978
Futures		(667,627)
Foreign currency		(144,267)
		19,998,084
Change in net unrealized appreciation (depreciation) on:		
Investments		(67,926,771)
Futures		174,375
Foreign currency		(198,399)
		(67,950,795)
Net gain (loss)		**(47,952,711)**
Net increase (decrease) in net assets resulting from operations	**$**	**(42,912,841)**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 5,039,870	$ 5,139,006
Net realized gain (loss)	19,998,084	32,033,390
Change in net unrealized appreciation (depreciation)	(67,950,795)	(35,483,954)
Net increase (decrease) in net assets resulting from operations	(42,912,841)	1,688,442
Distributions to shareholders from:		
Net investment income:		
Class A	(4,647,186)	(6,697,099)
Class B	(4,542)	(8,035)
Total distributions	(4,651,728)	(6,705,134)
Fund share transactions:		
Class A		
Proceeds from shares sold	8,968,575	11,044,552
Reinvestment of distributions	4,647,186	6,697,099
Payments for shares redeemed	(43,581,738)	(68,414,073)
Net increase (decrease) in net assets from Class A share transactions	(29,965,977)	(50,672,422)
Class B		
Proceeds from shares sold	17,120	28,325
Reinvestment of distributions	4,542	8,035
Payments for shares redeemed	(100,644)	(124,745)
Net increase (decrease) in net assets from Class B share transactions	(78,982)	(88,385)
Increase (decrease) in net assets	(77,609,528)	(55,777,499)
Net assets at beginning of period	288,658,783	344,436,282
Net assets at end of period (including undistributed net investment income of $4,638,574 and $4,383,767, respectively)	**$ 211,049,255**	**$ 288,658,783**

Other Information		
Class A		
Shares outstanding at beginning of period	35,091,522	41,648,336
Shares sold	1,212,691	1,324,213
Shares issued to shareholders in reinvestment of distributions	539,116	845,593
Shares redeemed	(5,575,971)	(8,726,620)
Net increase (decrease) in Class A shares	(3,824,164)	(6,556,814)
Shares outstanding at end of period	**31,267,358**	**35,091,522**
Class B		
Shares outstanding at beginning of period	44,527	56,405
Shares sold	2,218	3,694
Shares issued to shareholders in reinvestment of distributions	526	1,012
Shares redeemed	(12,378)	(16,584)
Net increase (decrease) in Class B shares	(9,634)	(11,878)
Shares outstanding at end of period	**34,893**	**44,527**

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

Financial Highlights

Class A	2011	2010	2009	2008	2007
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$15.01**	**$13.42**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.15	.13	.12	.29[c]	.21[c]
Net realized and unrealized gain (loss)	(1.49)	(.00)*	1.93	(6.46)	1.73
Total from investment operations	(1.34)	.13	2.05	(6.17)	1.94
Less distributions from:					
Net investment income	(.14)	(.17)	(.31)	(.17)	(.35)
Net realized gains	—	—	—	(2.15)	—
Total distributions	(.14)	(.17)	(.31)	(2.32)	(.35)
Net asset value, end of period	**$ 6.74**	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$15.01**
Total Return (%)	(16.67)	1.62[b]	33.52	(48.21)[b,d]	14.59
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	211	288	344	297	702
Ratio of expenses before expense reductions (%)	1.00	.99	.94	1.01	.98
Ratio of expenses after expense reductions (%)	1.00	.99	.94	.97	.98
Ratio of net investment income (loss) (%)	1.98	1.68	1.69	2.74[c]	1.48[c]
Portfolio turnover rate (%)	174	228	81	123	108

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 $0.09 and $0.05 per share and 0.82% and 0.33% of average daily net assets for the years ended December 31, 2008 and 2007, respectively.
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 0.06% lower.
* Amount is less than $.005.

Class B	2011	2010	2009	2008	2007
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$14.98**	**$13.38**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.13	.11	.10	.23[c]	.16[c]
Net realized and unrealized gain (loss)	(1.48)	(.00)*	1.94	(6.43)	1.73
Total from investment operations	(1.35)	.11	2.04	(6.20)	1.89
Less distributions from:					
Net investment income	(.12)	(.15)	(.30)	(.11)	(.29)
Net realized gains	—	—	—	(2.15)	—
Total distributions	(.12)	(.15)	(.30)	(2.26)	(.29)
Net asset value, end of period	**$ 6.75**	**$ 8.22**	**$ 8.26**	**$ 6.52**	**$14.98**
Total Return (%)	(16.77)	1.33[b]	32.89	(48.25)[b,d]	14.25[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.24	.36	.50	.40	12
Ratio of expenses before expense reductions (%)	1.28	1.26	1.22	1.33	1.41
Ratio of expenses after expense reductions (%)	1.28	1.26	1.22	1.28	1.39
Ratio of net investment income (loss) (%)	1.70	1.41	1.42	2.42[c]	1.07[c]
Portfolio turnover rate (%)	174	228	81	123	108

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 $0.09 and $0.05 per share and 0.82% and 0.33% of average daily net assets for the years ended December 31, 2008 and 2007, respectively.
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 0.06% lower.
* Amount is less than $.005.

Notes to Financial Statements

A. Organization and 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 five diversified funds: DWS Bond VIP, DWS Growth & Income VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP (formerly DWS Global Opportunities VIP) and DWS International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on DWS International VIP. The Series is intended to be the underlying investment vehicle for variable annuity contracts and variable life insurance policies to be offered by the separate accounts of certain life insurance companies ("Participating Insurance Companies").

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Class B shares are subject to Rule 12b-1 distribution fees under the 1940 Act and recordkeeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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. For certain international equity securities, in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market

in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Taxes. The Fund is treated as a separate taxpayer as provided for in the Internal Revenue Code, as amended. It is the Fund's policy to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to the separate accounts of the Participating Insurance Companies which hold its shares.

Additionally, based on the Series' understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which the Fund invests, the Fund will provide for foreign taxes, and where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $124,587,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($51,383,000) and December 31, 2017 ($73,204,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2011 to December 31, 2011, the Fund elects to defer qualified late year losses of approximately $5,197,000 of net realized long-term capital losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. The Fund will declare and distribute dividends from its 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 the Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

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

At December 31, 2011, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 4,638,574
Capital loss carryforwards	$ (124,587,000)
Net unrealized appreciation (depreciation) on investments	$ (31,982,540)

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

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 4,651,728	$ 6,705,134

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Series arising in connection with a specific Fund are allocated to that Fund. Other Series expenses which cannot be directly attributed to a Fund are apportioned among the Funds in the Series.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis net of foreign withholding taxes. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Derivative Instruments

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund entered into futures contracts in circumstances where portfolio management believed they offered 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.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $10,697,000.

Asset Derivative	Futures Contracts
Equity Contracts (a)	$ 174,375

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Futures Contracts
Equity Contracts (a)	$ (667,627)

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

(a) Net realized gain (loss) from futures

Change in Net Unrealized Appreciation (Depreciation)	Futures Contracts
Equity Contracts (a)	$ 174,375

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

(a) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment securities (excluding short-term investments) aggregated $433,375,166 and $472,762,170, respectively.

D. Related Parties

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

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

First $500 million of average daily net assets	.790%
Over $500 million of average daily net assets	.640%

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.79% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays the Advisor an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $254,434, of which $18,031 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2011
Class A	$ 690	$ 172
Class B	85	20
	$ 775	**$ 192**

Distribution Service Agreement. 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. For the year ended December 31, 2011, the Distribution Service Fee aggregated $741, of which $50 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $14,469, of which $3,058 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Effective July 14, 2011, Deutsche Bank AG serves as securities lending agent for the Fund. For the period from July 14, 2011 through December 31, 2011, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $3,845.

E. Ownership of the Fund

Two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 41% and 13%. One participating insurance company was an owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 85%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

Report of Independent Registered Public Accounting Firm

To the Trustees of DWS Variable Series I and the Shareholders of DWS International 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 International VIP (the "Fund") at December 31, 2011 and the results of its operations, the changes in its net assets, and the financial highlights for the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with 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, 2011 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 15, 2012

PricewaterhouseCoopers LLP

Information About Your Fund's Expenses

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 814.00	$ 814.20
Expenses Paid per $1,000*	$ 4.62	$ 5.90
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,020.11	$1,018.70
Expenses Paid per $1,000*	$ 5.14	$ 6.56

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

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series I — DWS International VIP	1.01%	1.29%

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

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

Tax Information

(Unaudited)

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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS International VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS'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, DWS provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, 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 the one-, three- and five-year periods ended December 31, 2010. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DWS the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DWS has made significant changes in the Fund's management structure, including the introduction of a new portfolio management team and investment process in April 2011.

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 DWS 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 a 0.10% fee paid to DWS under the Fund's administrative services agreement, were the same as the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2010). 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, 2010) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1int-2 (R-025823-1 2/12)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Balanced VIP

DWS INVESTMENTS
Deutsche Bank Group

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

Although allocation among different asset categories generally limits risk, fund management may favor an asset category that underperforms other assets or markets as a whole. Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. The fund may use derivatives, including as part of its Global Tactical Asset Allocation (GTAA) strategy. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Because ETFs trade on a securities exchange, their shares may trade at a premium or discount to their net asset value. ETFs also incur fees and expenses so they may not fully match the performance of the indexes they are designed to track. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Stocks may decline in value. The fund may lend securities to approved institutions. See the prospectus for details.

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

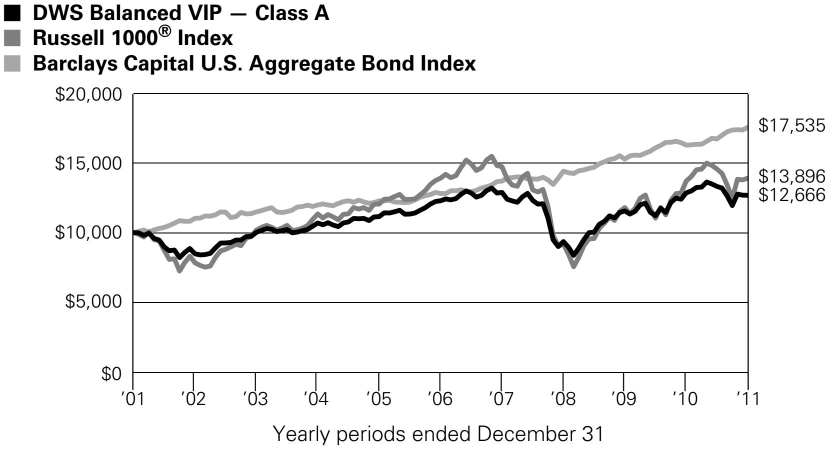
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 is 0.67% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

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.

The Barclays Capital U.S. Aggregate Bond Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

Index returns do not reflect any fees or expenses and 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	$9,858	$13,533	$10,310	$12,666
	Average annual total return	–1.42%	10.61%	0.61%	2.39%
Russell 1000 Index	Growth of $10,000	$10,150	$15,134	$9,990	$13,896
	Average annual total return	1.50%	14.81%	–0.02%	3.34%
Barclays Capital U.S. Aggregate Bond Index	Growth of $10,000	$10,784	$12,171	$13,701	$17,535
	Average annual total return	7.84%	6.77%	6.50%	5.78%

The growth of $10,000 is cumulative.

During the 12 months ended December 31, 2011, the Fund returned –1.42% (Class A shares, unadjusted for contract charges). The Russell 1000® Index, the Fund's equity benchmark, returned 1.50%, and the Barclays Capital U.S. Aggregate Bond Index, the Fund's bond benchmark, returned 7.84%.[1,2] DWS Balanced VIP consists of over one dozen investment strategies, including investments in six exchange-traded funds (ETFs) and a global tactical asset allocation overlay strategy (GTAA).[3,4]

Three key factors led to the Fund's underperformance in the annual period. First, the GTAA strategy finished the year with a negative total return, which offset some of the gains in the equity and fixed income portions of the Fund. Second, a number of the underlying strategies underperformed their respective benchmarks, which in turn pressured the relative performance of the Fund as a whole. And third, the Fund held an average weighting of 17% in international equities, which lagged their U.S. counterparts by a wide margin. On a longer-term basis, however, we believe international stocks are a critical element of a truly diversified portfolio. In terms of absolute performance, the best returns were turned in by the Funds' domestic equity strategies, which include investments across the range of market capitalization (large to small) and investment style (growth and value). This portion of the portfolio had a weighting of 41% as of December 31, 2011.[5]

The Fund's bond allocation (weighted at 38%) also produced a positive absolute return, with our positions in high yield, emerging markets, global inflation-linked bonds, the SPDR Barclays Capital International Treasury Bond ETF and our core fixed-income strategy all finishing the annual period with a gain.[6] The Fund's allocation to bonds also provided income and a measure of ballast at a time of heightened volatility for stocks. We believe this underscores the potential value of the Fund's highly diversified approach.

We believe the continuation of the European debt crisis will lead to ongoing volatility in the world equity markets during 2012. Still, we believe the markets have largely priced in these risks, creating potential opportunities for longer-term investors. We are maintaining a rigorous approach to strategic and tactical asset allocation, combined with diligent risk management. As the market environment continues to evolve, we will review these strategic allocations annually and alter the Fund's asset mix as we deem appropriate.

We believe DWS Balanced VIP, by virtue of its extensive diversification, continues to offer investors a compelling way to gain exposure to a wide range of asset classes within the global financial markets.

Robert Wang
Inna Okounkova
Thomas Picciochi
Portfolio Managers, QS Investors, LLC
Subadvisor to the Fund

1 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.

2 The Barclays Capital U.S. Aggregate Bond Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities.

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

3 An exchange-traded fund (ETF) is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

4 The global tactical asset allocation strategy (GTAA) attempts to take advantage of inefficiencies within global bond, equity and currency markets. The GTAA strategy uses derivatives (which are contracts or other instruments whose value is based on, for example, indices, currencies or securities), in particular, exchange-traded futures contracts on global bonds and equity indexes, and over-the-counter forward currency contracts.

5 Diversification neither assures a profit nor guarantees against a loss.

6 The SPDR Barclays Capital International Treasury Bond ETF tracks the Barclays Global Treasury Ex-U.S. Capped Index. The international bond ETF invests at least 80% of securities that are in the underlying index, as well as derivatives such as swaps and options. Some of the regions represented in the bond ETF are Japan, Germany, France, Italy and Greece.

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

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	53%	55%
Exchange-Traded Funds — Equity	5%	5%
Total Equity	**58%**	**60%**
Exchange-Traded Funds — Fixed income	11%	7%
Government & Agency Obligations	10%	9%
Corporate Bonds	7%	7%
Mortgage-Backed Securities Pass-Throughs	7%	7%
Commercial Mortgage-Backed Securities	1%	2%
Asset-Backed	1%	0%
Municipal Bonds and Notes	1%	1%
Preferred Stocks	0%	1%
Total Fixed Income	**38%**	**34%**
Cash Equivalents	**4%**	**6%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Senior Loans and Preferred Securities)	**12/31/11**	**12/31/10**
Information Technology	15%	16%
Financials	15%	13%
Health Care	12%	10%
Energy	12%	14%
Consumer Discretionary	10%	12%
Industrials	10%	11%
Consumer Staples	10%	9%
Materials	6%	6%
Utilities	6%	4%
Telecommunication Services	4%	5%
	100%	100%

Asset allocation and sector diversification exclude derivatives and are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 54.5%		
Consumer Discretionary 4.9%		
Auto Components 0.6%		
BorgWarner, Inc.* (b)	9,232	588,448
Bridgestone Corp.	4,700	106,387
Continental AG*	3,140	195,443
Minth Group Ltd.	121,217	113,820
Nippon Seiki Co., Ltd.	9,581	103,747
Tenneco, Inc.*	1,565	46,606
TRW Automotive Holdings Corp.*	10,119	329,879
		1,484,330
Automobiles 0.3%		
Honda Motor Co., Ltd.	13,667	416,191
Renault SA	12,700	437,747
		853,938
Distributors 0.3%		
Genuine Parts Co.	11,995	734,094
Li & Fung Ltd.	61,000	112,143
		846,237
Diversified Consumer Services 0.3%		
H&R Block, Inc.	57,185	**933,831**
Hotels Restaurants & Leisure 0.9%		
Bwin.Party Digital Entertainment PLC	16,806	42,623
Domino's Pizza UK & IRL PLC	15,236	94,963
McDonald's Corp.	7,286	731,004
Paddy Power PLC (c)	2,975	171,007
Paddy Power PLC (c)	53	3,067
REXLot Holdings Ltd.	1,781,323	116,877
Starwood Hotels & Resorts Worldwide, Inc.	16,851	808,343
Trump Entertainment Resorts, Inc.*	2	37
Wynn Resorts Ltd. (b)	3,497	386,384
		2,354,305
Household Durables 0.1%		
Hajime Construction Co., Ltd.	3,464	71,149
Jarden Corp.	2,745	82,021
Sony Corp.	6,800	122,550
		275,720
Internet & Catalog Retail 0.0%		
Shutterfly, Inc.*	2,155	**49,048**
Leisure Equipment & Products 0.1%		
Universal Entertainment Corp.	7,550	**208,493**
Media 0.1%		
Aegis Group PLC	22,884	51,107
Charm Communications, Inc. (ADR)* (b)	8,966	77,735
JC Decaux SA*	3,705	85,064
Postmedia Network Canada Corp.*	623	5,535
Vertis Holdings, Inc.*	111	61
		219,502
Multiline Retail 0.2%		
Dollar General Corp.*	10,385	**427,239**
Specialty Retail 1.2%		
Advance Auto Parts, Inc.	1,847	128,607
Aeropostale, Inc.*	4,713	71,873
Bed Bath & Beyond, Inc.*	10,444	605,439
Dick's Sporting Goods, Inc.	14,997	553,089
Fast Retailing Co., Ltd.	1,300	236,246
Guess?, Inc.	2,470	73,655
hhgregg, Inc.* (b)	4,141	59,837
L'Occitane International SA	38,141	76,388
Limited Brands, Inc.	27,888	1,125,281
Sally Beauty Holdings, Inc.*	5,629	118,941
Urban Outfitters, Inc.* (b)	3,290	90,672
Yamada Denki Co., Ltd.	600	40,767
		3,180,795
Textiles, Apparel & Luxury Goods 0.8%		
Adidas AG	1,600	104,070
Burberry Group PLC	4,384	80,228
Coach, Inc.	9,525	581,406
Deckers Outdoor Corp.*	1,850	139,805
NIKE, Inc. "B"	13,002	1,253,003
		2,158,512
Consumer Staples 5.7%		
Beverages 1.1%		
C&C Group PLC (c)	29,435	109,311
C&C Group PLC (c)	524	1,930
Carlsberg AS "B"	2,700	190,693
Heineken NV	15,400	710,948
PepsiCo, Inc.	29,708	1,971,126
		2,984,008
Food & Staples Retailing 1.9%		
AIN Pharmaciez, Inc.	1,435	68,930
Costco Wholesale Corp.	12,757	1,062,913
CVS Caremark Corp.	30,694	1,251,701
Kato Sangyo Co., Ltd.	3,234	62,387
Tesco PLC	9,500	59,471
Wal-Mart Stores, Inc.	12,642	755,486
Walgreen Co.	16,117	532,828
Wesfarmers Ltd.	4,377	131,903
Whole Foods Market, Inc.	12,726	885,475
Woolworths Ltd.	9,100	233,418
		5,044,512
Food Products 1.9%		
Diamond Foods, Inc. (b)	2,690	86,806
General Mills, Inc.	15,398	622,233
Golden Agri-Resources Ltd.	922,000	506,820
Green Mountain Coffee Roasters, Inc.*	774	34,714
Kellogg Co.	26,980	1,364,379
Kraft Foods, Inc. "A"	19,105	713,763
Mead Johnson Nutrition Co.	9,434	648,399
Nestle SA (Registered)	5,400	310,029
Sara Lee Corp.	32,693	618,552
SunOpta, Inc.* (b)	19,011	91,633
TreeHouse Foods, Inc.*	1,666	108,923
		5,106,251
Tobacco 0.8%		
Altria Group, Inc.	41,635	1,234,478
Philip Morris International, Inc.	9,333	732,454
		1,966,932
Energy 6.4%		
Energy Equipment & Services 1.5%		
AMEC PLC	7,984	112,018
Dresser-Rand Group, Inc.*	2,194	109,503

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

	Shares	Value ($)
Halliburton Co.	12,607	435,068
John Wood Group PLC	8,909	88,254
Lamprell PLC	17,667	73,463
National Oilwell Varco, Inc.	3,671	249,591
Noble Corp.*	23,504	710,291
Oil States International, Inc.*	7,431	567,505
ProSafe SE	9,231	62,998
SBM Offshore NV	7,610	156,432
Schlumberger Ltd.	15,753	1,076,087
Tecnicas Reunidas SA	1,140	40,906
Transocean Ltd.	10,237	392,998
		4,075,114
Oil, Gas & Consumable Fuels 4.9%		
Americas Petrogas, Inc.*	9,867	28,862
Anadarko Petroleum Corp.	13,892	1,060,376
Approach Resources, Inc.*	2,106	61,937
BP PLC	32,800	233,905
Canadian Natural Resources Ltd.	23,815	889,967
Chevron Corp.	10,093	1,073,895
Concho Resources, Inc.*	1,757	164,719
ConocoPhillips	11,461	835,163
Energy XXI (Bermuda) Ltd.*	854	27,226
EOG Resources, Inc.	9,345	920,576
Exxon Mobil Corp.	14,067	1,192,319
INPEX Corp.	40	251,543
Marathon Oil Corp.	28,989	848,508
Marathon Petroleum Corp.	20,639	687,072
Nexen, Inc.	30,557	486,162
Occidental Petroleum Corp.	20,738	1,943,151
Plains Exploration & Production Co.*	12,926	474,643
Rosetta Resources, Inc.*	1,188	51,678
Royal Dutch Shell PLC "B"	18,760	713,934
Suncor Energy, Inc.	29,573	852,590
Tullow Oil PLC	5,900	128,247
Ultra Petroleum Corp.*	1,391	41,215
		12,967,688

Financials 6.9%

	Shares	Value ($)
Capital Markets 0.9%		
Affiliated Managers Group, Inc.*	914	87,698
Ameriprise Financial, Inc.	6,892	342,119
Ashmore Group PLC	26,967	139,302
Hargreaves Lansdown PLC	5,781	38,494
ICAP PLC	8,545	45,971
Jefferies Group, Inc. (b)	4,662	64,103
Lazard Ltd. "A"	1,858	48,512
Partners Group Holding AG	754	131,345
T. Rowe Price Group, Inc. (b)	17,015	969,004
The Goldman Sachs Group, Inc.	4,648	420,319
UOB-Kay Hian Holdings Ltd.	48,702	57,660
Waddell & Reed Financial, Inc. "A"	2,285	56,600
		2,401,127
Commercial Banks 1.3%		
Banco Comercial Portugues SA "R"* (b)	820,000	143,669
BOC Hong Kong (Holdings) Ltd.	315,000	742,704
DBS Group Holdings Ltd.	29,500	261,321
DGB Financial Group, Inc.*	7,882	88,749
DnB NOR ASA	19,900	194,446
Mizuho Financial Group, Inc.	94,000	126,855
National Australia Bank Ltd.	50,961	1,214,903
Prosperity Bancshares, Inc.	2,304	92,966
Resona Holdings, Inc.	50,800	223,508
Societe Generale	5,964	132,365
Sumitomo Mitsui Financial Group, Inc.	4,000	111,285
Westpac Banking Corp.	5,900	120,429
Zions Bancorp.	1,737	28,278
		3,481,478
Consumer Finance 0.2%		
Discover Financial Services	24,093	**578,232**
Diversified Financial Services 0.5%		
IG Group Holdings PLC	12,523	92,678
ING Groep NV (CVA)*	29,026	206,846
Investor AB "B"	6,900	128,217
JPMorgan Chase & Co.	28,616	951,482
		1,379,223
Insurance 3.1%		
Allianz SE (Registered)	530	50,652
Assurant, Inc.	23,159	950,909
AXA SA	52,624	678,189
Fidelity National Financial, Inc. "A"	45,149	719,224
HCC Insurance Holdings, Inc.	22,250	611,875
Lincoln National Corp.	40,923	794,725
MetLife, Inc.	22,079	688,423
Old Mutual PLC	220,369	461,181
PartnerRe Ltd.	15,542	997,952
Prudential Financial, Inc.	15,534	778,564
Transatlantic Holdings, Inc.	12,795	700,270
Zurich Financial Services AG*	3,550	801,644
		8,233,608
Real Estate Investment Trusts 0.6%		
American Tower Corp. "A"	13,989	839,480
CapitaMall Trust (REIT)	383,000	501,153
Klepierre (REIT)	3,900	110,799
Westfield Group (REIT) (Units)	16,500	131,857
		1,583,289
Real Estate Management & Development 0.3%		
CapitaLand Ltd.	74,300	126,246
K Wah International Holdings Ltd.	332,379	84,220
Mitsubishi Estate Co., Ltd.	24,900	371,507
Mitsui Fudosan Co., Ltd.	8,900	129,528
Sumitomo Realty & Development Co., Ltd.	1,000	17,485
		728,986

Health Care 6.9%

	Shares	Value ($)
Biotechnology 0.8%		
Celgene Corp.*	21,566	1,457,862
Gilead Sciences, Inc.*	15,054	616,160
Onyx Pharmaceuticals, Inc.*	1,110	48,784
		2,122,806
Health Care Equipment & Supplies 1.4%		
Baxter International, Inc.	20,211	1,000,040
Becton, Dickinson & Co.	10,015	748,321
CareFusion Corp.*	17,122	435,070
CONMED Corp.*	2,436	62,532
Edwards Lifesciences Corp.*	5,460	386,022
NxStage Medical, Inc.*	5,466	97,185
Sirona Dental Systems, Inc.*	1,791	78,876
St. Jude Medical, Inc.	15,365	527,019
Terumo Corp.	3,200	150,529
Thoratec Corp.*	4,955	166,290
Zeltiq Aesthetics, Inc.* (b)	3,702	42,055
		3,693,939

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

	Shares	Value ($)
Health Care Providers & Services 2.3%		
Aetna, Inc.	15,095	636,858
Centene Corp.*	4,781	189,280
Express Scripts, Inc.*	23,097	1,032,205
Fleury SA	9,868	113,215
Fresenius Medical Care AG & Co. KGaA	4,553	309,359
Humana, Inc.	9,430	826,162
McKesson Corp.	26,343	2,052,383
Universal American Corp.	5,765	73,273
WellCare Health Plans, Inc.*	1,513	79,433
WellPoint, Inc.	9,569	633,946
		5,946,114
Health Care Technology 0.1%		
SXC Health Solutions Corp.*	2,404	**135,778**
Life Sciences Tools & Services 0.2%		
Life Technologies Corp.*	2,470	96,108
Thermo Fisher Scientific, Inc.*	10,104	454,377
		550,485
Pharmaceuticals 2.1%		
Flamel Technologies SA (ADR)*	12,271	63,932
GlaxoSmithKline PLC	96,800	2,207,294
Merck & Co., Inc.	32,953	1,242,328
Mitsubishi Tanabe Pharma Corp.	40,200	635,738
Novo Nordisk AS "B"	1,157	133,108
Pacira Pharmaceuticals, Inc.*	12,451	107,701
Questcor Pharmaceuticals, Inc.*	6,398	266,029
Teva Pharmaceutical Industries Ltd. (ADR) (b)	22,904	924,405
VIVUS, Inc.* (b)	7,628	74,373
		5,654,908
Industrials 6.0%		
Aerospace & Defense 1.9%		
BE Aerospace, Inc.*	3,383	130,956
European Aeronautic Defence & Space Co. NV	25,300	787,114
Northrop Grumman Corp.	10,641	622,286
Raytheon Co.	19,228	930,250
TransDigm Group, Inc.*	5,977	571,879
United Technologies Corp.	26,013	1,901,290
		4,943,775
Airlines 0.1%		
Cebu Air, Inc.	36,118	53,608
Ryanair Holdings PLC (ADR)*	3,383	94,251
		147,859
Building Products 0.0%		
Congoleum Corp.*	3,800	**0**
Commercial Services & Supplies 0.3%		
Babcock International Group PLC	14,591	165,995
Serco Group PLC	9,743	71,643
Stericycle, Inc.*	6,857	534,297
		771,935
Construction & Engineering 0.1%		
Aecom Technology Corp.*	3,837	78,927
Chicago Bridge & Iron Co. NV	4,113	155,472
Hochtief AG	900	52,058
SOCAM Development Ltd.	51,137	47,227
Yongnam Holdings Ltd.	466,392	82,760
		416,444
Electrical Equipment 1.0%		
AMETEK, Inc.	21,625	910,413
Mitsubishi Electric Corp.	31,600	302,137
Nidec Corp.	3,100	269,068
Prysmian SpA	3,591	44,378
Roper Industries, Inc.	9,840	854,801
Schneider Electric SA	3,690	192,842
		2,573,639
Machinery 1.7%		
Altra Holdings, Inc.*	4,208	79,237
Amtek Engineering Ltd.	124,825	56,657
Andritz AG	1,230	101,905
Austal Ltd.	26,484	58,289
Dover Corp.	26,845	1,558,352
EVA Precision Industrial Holdings Ltd.	484,184	117,078
Joy Global, Inc.	739	55,403
Mitsubishi Heavy Industries Ltd.	14,200	60,436
Nabtesco Corp.	8,600	156,292
Navistar International Corp.*	11,379	431,037
Parker Hannifin Corp.	12,732	970,815
Rational AG	465	101,223
Rotork PLC	3,719	111,066
SPX Corp.	7,536	454,195
WABCO Holdings, Inc.*	2,035	88,319
		4,400,304
Marine 0.1%		
Kawasaki Kisen Kaisha Ltd.	47,000	84,699
Mitsui O.S.K Lines Ltd.	62,529	241,852
		326,551
Professional Services 0.0%		
Brunel International NV	2,270	**66,650**
Road & Rail 0.4%		
Norfolk Southern Corp.	15,844	**1,154,394**
Trading Companies & Distributors 0.3%		
JFE Shoji Holdings, Inc.	18,089	75,350
MISUMI Group, Inc.	4,905	112,558
Mitsubishi Corp.	29,467	594,203
Sumikin Bussan Corp.	35,538	89,954
		872,065
Transportation Infrastructure 0.1%		
Koninklijke Vopak NV	2,796	**147,306**
Information Technology 9.2%		
Communications Equipment 1.3%		
Cisco Systems, Inc.	53,149	960,934
Harris Corp. (b)	2,039	73,485
Nokia Corp.	17,400	84,082
Polycom, Inc.*	2,162	35,241
QUALCOMM, Inc.	39,516	2,161,525
Sycamore Networks, Inc.*	3,151	56,403
		3,371,670
Computers & Peripherals 2.4%		
Apple, Inc.*	10,906	4,416,930
EMC Corp.* (b)	67,465	1,453,196
Hewlett-Packard Co.	22,849	588,591
		6,458,717

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

	Shares	Value ($)
Electronic Equipment, Instruments & Components 0.1%		
Cognex Corp.	2,861	102,395
E Ink Holdings, Inc.	61,995	80,709
Nippon Electric Glass Co., Ltd.	9,800	97,363
		280,467
Internet Software & Services 0.5%		
Google, Inc. "A"*	1,692	1,092,863
Internet Initiative Japan, Inc.	15	53,738
NIC, Inc.	5,838	77,704
United Internet AG (Registered)	6,215	111,001
		1,335,306
IT Services 1.1%		
Accenture PLC "A"	21,325	1,135,130
Cap Gemini	4,000	124,420
Cardtronics, Inc.*	5,758	155,811
International Business Machines Corp.	5,679	1,044,255
VeriFone Systems, Inc.*	11,160	396,403
		2,856,019
Office Electronics 0.1%		
Canon, Inc.	6,300	**278,768**
Semiconductors & Semiconductor Equipment 1.0%		
ARM Holdings PLC	14,760	136,072
Atmel Corp.*	5,416	43,869
EZchip Semiconductor Ltd.*	1,590	45,045
FSI International, Inc.*	15,076	55,178
Intel Corp. (b)	73,737	1,788,122
Skyworks Solutions, Inc.*	28,004	454,225
Tokyo Electron Ltd.	900	45,725
		2,568,236
Software 2.7%		
Check Point Software Technologies Ltd.*	11,804	620,182
Dassault Systemes SA	19,100	1,529,330
MICROS Systems, Inc.*	529	24,641
Microsoft Corp.	94,684	2,457,997
Oracle Corp.	62,707	1,608,434
Rovi Corp.*	1,828	44,932
SAP AG	11,298	597,363
Solera Holdings, Inc.	6,374	283,898
TiVo, Inc.*	6,199	55,605
		7,222,382
Materials 3.3%		
Chemicals 1.5%		
Air Products & Chemicals, Inc.	11,008	937,771
Ecolab, Inc.	12,502	722,741
Lanxess AG	3,400	175,909
Potash Corp. of Saskatchewan, Inc.	13,037	538,167
Praxair, Inc.	8,787	939,330
Syngenta AG (Registered)*	200	58,864
The Mosaic Co.	12,386	624,626
		3,997,408
Construction Materials 0.0%		
Wolverine Tube, Inc.*	366	**9,150**
Containers & Packaging 0.3%		
Sonoco Products Co.	27,681	**912,366**
Metals & Mining 1.4%		
Anglo American PLC	2,500	92,140
BHP Billiton Ltd.	5,500	194,142
BHP Billiton PLC	1,400	40,707
Freeport-McMoRan Copper & Gold, Inc. (b)	31,782	1,169,260
Goldcorp, Inc.	14,768	653,484
Haynes International, Inc.	474	25,880
Newcrest Mining Ltd.	13,650	413,497
Newmont Mining Corp.	11,142	668,631
Randgold Resources Ltd. (ADR)	1,005	102,610
Walter Energy, Inc.	3,975	240,726
		3,601,077
Paper & Forest Products 0.1%		
Schweitzer-Mauduit International, Inc.	1,958	**130,129**
Telecommunication Services 2.0%		
Diversified Telecommunication Services 1.5%		
AT&T, Inc.	38,196	1,155,047
Bezeq Israeli Telecommunication Corp., Ltd.	170,000	311,824
CenturyLink, Inc.	32,893	1,223,620
Inmarsat PLC	35,400	221,612
TeliaSonera AB	137,900	934,240
		3,846,343
Wireless Telecommunication Services 0.5%		
Softbank Corp.	7,900	232,429
Vodafone Group PLC	32,800	91,065
Vodafone Group PLC (ADR)	35,272	988,674
		1,312,168
Utilities 3.2%		
Electric Utilities 2.4%		
American Electric Power Co., Inc.	22,317	921,915
Duke Energy Corp. (b)	39,102	860,244
Entergy Corp.	13,577	991,800
Exelon Corp.	26,347	1,142,669
FirstEnergy Corp.	30,656	1,358,061
Fortum Oyj	5,800	123,400
Kyushu Electric Power Co., Inc.	8,800	126,019
Red Electrica Corporacion SA	5,000	213,343
Southern Co.	13,054	604,270
		6,341,721
Gas Utilities 0.4%		
Snam Rete Gas SpA	220,500	**969,179**
Multi-Utilities 0.3%		
Centrica PLC	30,400	136,438
PG&E Corp.	14,573	600,699
		737,137
Water Utilities 0.1%		
American Water Works Co., Inc.	9,567	**304,805**
Total Common Stocks (Cost $127,397,581)		**143,980,398**

	Shares	Value ($)
Preferred Stock 0.1%		
Consumer Discretionary		
Porsche Automobil Holding SE (Cost $283,989)	4,300	**230,115**
Warrants 0.0%		
Consumer Discretionary 0.0%		
Reader's Digest Association, Inc., Expiration Date 2/19/2014*	80	**13**

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

	Shares	Value ($)
Information Technology 0.0%		
Kingboard Chemical Holdings Ltd., Expiration Date 10/31/2012*	3,400	**127**
Materials 0.0%		
Hercules Trust II, Expiration Date 3/31/2029*	170	**1,401**
Total Warrants (Cost $30,283)		**1,541**

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 7.4%		
Consumer Discretionary 1.4%		
AMC Entertainment, Inc.:		
8.0%, 3/1/2014	35,000	34,563
8.75%, 6/1/2019	135,000	139,725
Asbury Automotive Group, Inc., 7.625%, 3/15/2017	35,000	35,088
Avis Budget Car Rental LLC, 8.25%, 1/15/2019	15,000	14,888
Cablevision Systems Corp., 8.625%, 9/15/2017	250,000	276,875
Caesar's Entertainment Operating Co., Inc., 11.25%, 6/1/2017	80,000	84,900
CCO Holdings LLC:		
6.5%, 4/30/2021	200,000	202,500
7.375%, 6/1/2020	10,000	10,550
Cequel Communications Holdings I LLC, 144A, 8.625%, 11/15/2017	195,000	206,700
DIRECTV Holdings LLC, 6.35%, 3/15/2040	51,000	58,019
DISH DBS Corp.:		
6.625%, 10/1/2014	40,000	42,700
7.125%, 2/1/2016	35,000	37,713
7.875%, 9/1/2019	155,000	175,150
Fontainebleau Las Vegas Holdings LLC, 144A, 11.0%, 6/15/2015*	25,000	16
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015	30,000	30,300
Hertz Corp., 6.75%, 4/15/2019	255,000	255,637
Johnson Controls, Inc., 3.75%, 12/1/2021	140,000	144,554
Mediacom Broadband LLC, 8.5%, 10/15/2015	20,000	20,600
NBCUniversal Media LLC, 5.95%, 4/1/2041	247,000	290,327
Time Warner Cable, Inc., 4.0%, 9/1/2021	150,000	151,759
Time Warner, Inc.:		
5.875%, 11/15/2016	147,000	169,671
7.625%, 4/15/2031	175,000	225,904
Travelport LLC, 5.152%**, 9/1/2014	20,000	9,800
Unitymedia Hessen GmbH & Co., KG, 144A, 8.125%, 12/1/2017	265,000	279,906
Univision Communications, Inc., 144A, 6.875%, 5/15/2019	25,000	24,125
Viacom, Inc., 2.5%, 12/15/2016	350,000	349,867
Yum! Brands, Inc.:		
3.875%, 11/1/2020	210,000	214,756
5.3%, 9/15/2019	65,000	72,724
		3,559,317
Consumer Staples 0.3%		
Anheuser-Busch InBev Worldwide, Inc., 7.75%, 1/15/2019	500,000	647,579
CVS Caremark Corp., 5.75%, 5/15/2041	65,000	77,398
Kroger Co., 5.4%, 7/15/2040 (b)	110,000	118,508
		843,485
Energy 1.1%		
Arch Coal, Inc., 144A, 7.25%, 6/15/2021	340,000	349,350
Bill Barrett Corp., 7.625%, 10/1/2019	10,000	10,450
BreitBurn Energy Partners LP, 8.625%, 10/15/2020	10,000	10,463
Bristow Group, Inc., 7.5%, 9/15/2017	30,000	31,200
Chesapeake Energy Corp., 6.875%, 11/15/2020 (b)	175,000	187,250
CONSOL Energy, Inc., 8.0%, 4/1/2017	220,000	240,900
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	200,000	260,718
Encana Corp., 5.15%, 11/15/2041	55,000	56,148
Enterprise Products Operating LLC, 6.125%, 10/15/2039	230,000	256,902
Kinder Morgan Energy Partners LP, 7.3%, 8/15/2033	360,000	420,397
Kodiak Oil & Gas Corp., 144A, 8.125%, 12/1/2019	10,000	10,363
Linn Energy LLC, 144A, 6.5%, 5/15/2019	85,000	84,362
ONEOK Partners LP, 6.15%, 10/1/2016	201,000	230,810
Plains All American Pipeline LP, 8.75%, 5/1/2019	300,000	383,248
Plains Exploration & Production Co., 6.75%, 2/1/2022	20,000	20,950
SESI LLC, 144A, 7.125%, 12/15/2021	30,000	31,500
Swift Energy Co., 144A, 7.875%, 3/1/2022	20,000	19,750
Weatherford International Ltd., 5.125%, 9/15/2020	300,000	311,753
Williams Partners LP, 4.0%, 11/15/2021	56,000	57,502
		2,974,016
Financials 2.1%		
Ally Financial, Inc., 6.25%, 12/1/2017	260,000	250,796
American Express Credit Corp., 2.8%, 9/19/2016	450,000	452,205
American Tower Corp., (REIT), 7.25%, 5/15/2019 (b)	175,000	198,153
Ashton Woods U.S.A. LLC, 144A, Step-up Coupon, 0% to 6/30/2012, 11.0% to 6/30/2015	36,400	27,664
Bank of America Corp., Series L, 7.625%, 6/1/2019	250,000	258,554
Bunge Ltd. Finance Corp., 4.1%, 3/15/2016	78,000	80,771
Calpine Construction Finance Co., LP, 144A, 8.0%, 6/1/2016	30,000	32,400
CIT Group, Inc.:		
7.0%, 5/1/2015	355	356
144A, 7.0%, 5/4/2015	65,000	65,081
144A, 7.0%, 5/2/2017	80,000	79,900
Citigroup, Inc., 4.5%, 1/14/2022	120,000	115,443
CNA Financial Corp., 5.75%, 8/15/2021	265,000	270,413

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

	Principal Amount ($)(a)	Value ($)
Ford Motor Credit Co., LLC, 5.875%, 8/2/2021	260,000	270,974
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018	10,000	10,475
Hexion U.S. Finance Corp., 8.875%, 2/1/2018	130,000	121,875
International Lease Finance Corp., 6.25%, 5/15/2019	80,000	73,903
JPMorgan Chase & Co., 2.6%, 1/15/2016	700,000	689,754
Lincoln National Corp., 8.75%, 7/1/2019	130,000	158,127
Morgan Stanley, 3.45%, 11/2/2015	45,000	41,431
Nationwide Financial Services, Inc., 144A, 5.375%, 3/25/2021	119,000	116,887
Navios Maritime Acquisition Corp., 8.625%, 11/1/2017	10,000	7,250
PNC Bank NA, 6.875%, 4/1/2018	300,000	340,237
Prudential Financial, Inc., 7.375%, 6/15/2019	30,000	35,462
Santander U.S. Debt SA Unipersonal, 144A, 2.991%, 10/7/2013	500,000	478,007
SunTrust Banks, Inc., 3.6%, 4/15/2016	98,000	99,797
The Goldman Sachs Group, Inc., 6.15%, 4/1/2018	260,000	268,343
Toyota Motor Credit Corp., 2.0%, 9/15/2016	500,000	504,975
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020	150,000	147,750
Virgin Media Finance PLC, Series 1, 9.5%, 8/15/2016	215,000	241,338
		5,438,321
Health Care 0.8%		
Amgen, Inc., 5.15%, 11/15/2041	150,000	155,503
Express Scripts, Inc.:		
6.25%, 6/15/2014	250,000	272,484
7.25%, 6/15/2019	320,000	381,334
Gilead Sciences, Inc., 4.4%, 12/1/2021	100,000	105,869
HCA Holdings, Inc., 7.75%, 5/15/2021 (b)	240,000	244,200
HCA, Inc., 8.5%, 4/15/2019	10,000	10,950
McKesson Corp., 4.75%, 3/1/2021	200,000	226,589
Quest Diagnostics, Inc.:		
4.7%, 4/1/2021	300,000	319,824
6.4%, 7/1/2017	250,000	295,685
		2,012,438
Industrials 0.2%		
Actuant Corp., 6.875%, 6/15/2017	20,000	20,600
ARAMARK Corp., 8.5%, 2/1/2015	10,000	10,250
BE Aerospace, Inc.:		
6.875%, 10/1/2020	160,000	174,400
8.5%, 7/1/2018	50,000	54,750
Belden, Inc., 7.0%, 3/15/2017	25,000	24,969
Burlington Northern Santa Fe LLC, 3.45%, 9/15/2021	43,000	44,320
Cenveo Corp., 144A, 10.5%, 8/15/2016	10,000	8,425
Congoleum Corp., 9.0%, 12/31/2017 (PIK)	66,148	38,366
CSX Corp., 6.15%, 5/1/2037	150,000	180,382
United Rentals North America, Inc., 10.875%, 6/15/2016	20,000	22,200
		578,662

	Principal Amount ($)(a)	Value ($)
Information Technology 0.2%		
Applied Materials, Inc., 5.85%, 6/15/2041	260,000	296,328
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018	70,000	74,812
Hewlett-Packard Co., 3.3%, 12/9/2016	200,000	204,221
MasTec, Inc., 7.625%, 2/1/2017	35,000	36,400
		611,761
Materials 0.5%		
Appleton Papers, Inc., 11.25%, 12/15/2015	15,000	13,500
Crown Americas LLC, 7.625%, 5/15/2017	10,000	10,912
Dow Chemical Co.:		
4.125%, 11/15/2021	30,000	30,772
4.25%, 11/15/2020	185,000	192,296
Ecolab, Inc.:		
4.35%, 12/8/2021	167,000	178,337
5.5%, 12/8/2041	37,000	41,001
FMG Resources (August 2006) Pty Ltd., 144A, 6.375%, 2/1/2016	250,000	242,500
GEO Specialty Chemicals, Inc.:		
7.5%, 3/31/2015 (PIK)	209,283	183,960
10.0%, 3/31/2015	206,080	194,746
Graphic Packaging International, Inc., 9.5%, 6/15/2017	30,000	32,850
NewMarket Corp., 7.125%, 12/15/2016	65,000	66,462
Owens-Brockway Glass Container, Inc., 7.375%, 5/15/2016	10,000	10,950
Sealed Air Corp.:		
144A, 8.125%, 9/15/2019	10,000	10,950
144A, 8.375%, 9/15/2021	10,000	11,050
Silgan Holdings, Inc., 7.25%, 8/15/2016	20,000	21,350
Wolverine Tube, Inc., 6.0%, 6/28/2014	8,253	7,452
		1,249,088
Telecommunication Services 0.5%		
AT&T, Inc., 3.875%, 8/15/2021	64,000	67,696
Cincinnati Bell, Inc.:		
8.25%, 10/15/2017	100,000	100,500
8.375%, 10/15/2020	20,000	19,950
Cricket Communications, Inc., 10.0%, 7/15/2015	50,000	50,000
Digicel Ltd., 144A, 8.25%, 9/1/2017	125,000	125,625
ERC Ireland Preferred Equity Ltd., 144A, 8.462%**, 2/15/2017 (PIK)	117,890	382
Frontier Communications Corp., 6.625%, 3/15/2015	250,000	247,500
Intelsat Jackson Holdings SA, 144A, 7.5%, 4/1/2021	125,000	126,406
Intelsat Luxembourg SA, 11.25%, 2/4/2017	67,000	64,823
MetroPCS Wireless, Inc., 6.625%, 11/15/2020	250,000	233,125
Sprint Nextel Corp., 8.375%, 8/15/2017	120,000	107,550
Windstream Corp.:		
7.0%, 3/15/2019	25,000	25,250
7.75%, 10/15/2020	75,000	77,531
7.875%, 11/1/2017	130,000	140,725
		1,387,063

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

	Principal Amount ($)(a)	Value ($)
Utilities 0.3%		
AES Corp.:		
8.0%, 10/15/2017	35,000	38,500
8.0%, 6/1/2020	30,000	33,000
Calpine Corp., 144A, 7.5%, 2/15/2021	195,000	208,650
DTE Energy Co., 7.625%, 5/15/2014	81,000	92,047
FirstEnergy Solutions Corp., 6.8%, 8/15/2039	234,000	262,025
Sempra Energy, 6.5%, 6/1/2016	135,000	157,477
		791,699
Total Corporate Bonds (Cost $18,814,590)		**19,445,850**

Asset-Backed 0.8%

	Principal Amount ($)(a)	Value ($)
Automobile Receivables 0.1%		
Ford Credit Auto Owner Trust, "B", Series 2007-B, 5.69%, 11/15/2012	262,841	**264,070**
Credit Card Receivables 0.2%		
Citibank Omni Master Trust, "A14", Series 2009-A14A, 144A, 3.028%**, 8/15/2018	550,000	**576,954**
Student Loans 0.5%		
Nelnet Student Loan Trust:		
"A1", Series 2007-1, 0.516%**, 11/27/2018	491,819	484,964
"A4", Series 2006-1, 0.585%**, 11/23/2022	675,000	665,508
		1,150,472
Total Asset-Backed (Cost $1,991,139)		**1,991,496**

Mortgage-Backed Securities Pass-Throughs 7.3%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
4.0%, 8/1/2039	1,594,884	1,683,786
4.5%, 6/1/2041	1,185,158	1,255,342
6.0%, 3/1/2038	27,142	29,755
Federal National Mortgage Association:		
2.458%**, 8/1/2037	153,691	163,681
3.0%, 6/1/2026 (d)	3,150,000	3,252,867
3.5%, 2/1/2041 (d)	2,600,000	2,674,344
4.0%, with various maturities from 5/1/2039 until 2/1/2040 (d)	4,548,292	4,789,104
4.5%, with various maturities from 9/1/2035 until 5/1/2041	1,218,765	1,295,933
5.0%, 3/1/2040	2,159,847	2,331,538
6.0%, with various maturities from 1/1/2024 until 8/1/2037	1,644,173	1,814,808
6.5%, with various maturities from 5/1/2017 until 1/1/2038	36,018	39,510
8.0%, 9/1/2015	46,658	50,111
Total Mortgage-Backed Securities Pass-Throughs (Cost $19,035,828)		**19,380,779**

Commercial Mortgage-Backed Securities 1.4%

	Principal Amount ($)(a)	Value ($)
Banc of America Commercial Mortgage, Inc., "A4", Series 2007-1, 5.451%, 1/15/2049	500,000	543,224
Bear Stearns Commercial Mortgage Securities, Inc., "A4", Series 2007-PW16, 5.715%**, 6/11/2040	66,000	72,258
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"A4", Series 2007-C1, 5.716%, 2/15/2051	225,000	243,570
"A4", Series 2007-LD12, 5.882%, 2/15/2051	430,000	467,030
LB-UBS Commercial Mortgage Trust:		
"A4", Series 2006-C1, 5.156%, 2/15/2031	1,250,000	1,379,039
"A4", Series 2007-C6, 5.858%, 7/15/2040	260,000	284,803
Morgan Stanley Reremic Trust, "A4A", Series 2009-GG10, 144A, 5.79%**, 8/12/2045	550,000	616,627
Total Commercial Mortgage-Backed Securities (Cost $3,480,033)		**3,606,551**

Collateralized Mortgage Obligations 0.2%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp., "H", Series 2278, 6.5%, 1/15/2031	152	171
Government National Mortgage Association:		
"IU", Series 2010-164, Interest Only, 2.0%, 12/20/2013	1,469,221	39,649
"PI", Series 2010-84, Interest Only, 4.5%, 2/20/2033	3,076,599	218,728
"IA", Series 2010-58, Interest Only, 5.0%, 3/20/2039	1,009,750	167,711
Total Collateralized Mortgage Obligations (Cost $528,077)		**426,259**

Government & Agency Obligations 9.5%

	Principal Amount ($)(a)	Value ($)
Sovereign Bonds 2.6%		
Federal Republic of Germany-Inflation Linked Note, 2.25%, 4/15/2013	221,260	297,706
Government of Canada-Inflation Linked Bond, 4.0%, 12/1/2031	244,542	416,529
Government of France-Inflation Linked Bonds:		
1.0%, 7/25/2017	248,364	322,345
2.25%, 7/25/2020	649,270	900,904
3.15%, 7/25/2032	356,432	567,119
Government of Japan-Inflation Linked Bond, Series 9, 1.1%, 9/10/2016	23,880,000	320,179
Government of Sweden-Inflation Linked Bond, Series 3105, 3.5%, 12/1/2015	2,650,000	537,736
Republic of Italy-Inflation Linked Bond, 2.1%, 9/15/2017	179,896	194,553
State of Qatar, 144A, 6.4%, 1/20/2040	100,000	117,500
United Kingdom Treasury-Inflation Linked Bonds:		
1.125%, 11/22/2037	682,538	1,419,422
1.875%, 11/22/2022	347,175	688,942
2.0%, 1/26/2035	170,000	542,936
2.5%, 7/26/2016	112,000	594,044
		6,919,915

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

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Obligations 6.9%		
U.S. Treasury Bill, 0.015%***, 3/8/2012 (e)	235,000	234,993
U.S. Treasury Bonds:		
4.75%, 2/15/2037 (b)	2,300,000	3,124,046
5.375%, 2/15/2031 (b)	1,000,000	1,425,312
U.S. Treasury Inflation-Indexed Bonds:		
2.125%, 2/15/2040	188,575	253,059
2.375%, 1/15/2025 (b)	985,041	1,252,388
3.875%, 4/15/2029	220,384	343,403
U.S. Treasury Inflation-Indexed Notes:		
0.625%, 7/15/2021 (b)	1,205,604	1,289,714
1.875%, 7/15/2015	256,111	282,442
2.375%, 1/15/2017 (b)	533,349	619,101
2.5%, 7/15/2016 (b)	695,169	804,006
U.S. Treasury Notes:		
1.0%, 1/15/2014 (b)	605,000	613,933
1.0%, 8/31/2016	500,000	505,469
1.75%, 1/31/2014 (b)	3,900,000	4,019,133
2.0%, 11/15/2021 (b)	1,750,000	1,769,961
4.5%, 11/15/2015 (b)	1,500,000	1,724,532
		18,261,492
Total Government & Agency Obligations (Cost $22,503,526)		**25,181,407**

	Principal Amount ($)(a)	Value ($)
Municipal Bonds and Notes 0.4%		
California, University Revenues, Build America Bonds, 5.946%, 5/15/2045 (f)	125,000	145,659
Chicago, IL, Transit Authority, Sales Tax Receipts Revenue, Build America Bonds, Series B, 6.2%, 12/1/2040 (f)	185,000	208,978
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (f)	500,000	513,395
Louisville & Jefferson County, KY, Metropolitan Sewer District & Drain System, Build America Bonds, 6.25%, 5/15/2043 (f)	150,000	188,232
Total Municipal Bonds and Notes (Cost $960,264)		**1,056,264**

	Principal Amount ($)(a)	Value ($)
Preferred Securities 0.1%		
Financials 0.1%		
Farm Credit Bank of Texas, Series 1, 7.561%, 12/15/2013 (g)	218,000	**217,060**
Materials 0.0%		
Hercules, Inc., 6.5%, 6/30/2029	40,000	**30,600**
Total Preferred Securities (Cost $242,641)		**247,660**

	Units	Value ($)
Other Investments 0.0%		
Consumer Discretionary		
AOT Bedding Super Holdings LLC* (Cost $2,000)	2	**2,000**

	Shares	Value ($)
Exchange-Traded Funds 16.3%		
iShares JPMorgan USD Emerging Markets Bond Fund	36,457	4,001,156
iShares Russell 2000 Value Index Fund	84,923	5,574,346
SPDR Barclays Capital International Treasury Bond	67,755	3,986,026
SPDR Gold Trust*	5,111	776,821
Vanguard MSCI Emerging Markets Fund	202,661	7,743,677
Vanguard Total Bond Market Fund	251,827	21,037,627
Total Exchange-Traded Funds (Cost $39,217,764)		**43,119,653**
Securities Lending Collateral 8.5%		
Daily Assets Fund Institutional, 0.18% (h) (i) (Cost $22,566,323)	22,566,323	**22,566,323**
Cash Equivalents 4.4%		
Central Cash Management Fund, 0.07% (h) (Cost $11,489,602)	11,489,602	**11,489,602**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $268,543,640)†	110.9	**292,725,898**
Other Assets and Liabilities, Net	(10.9)	**(28,666,478)**
Net Assets	100.0	**264,059,420**

The following table represents bonds that are in default:

Security	Coupon	Maturity Date	Principal Amount ($)	Acquisition Cost ($)	Value ($)
Fontainebleau Las Vegas Holdings LLC*	11.00%	6/15/2015	25,000 USD	25,000	16

* Non-income producing security. In the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or interest or has filed for bankruptcy.

** Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2011.

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

† The cost for federal income tax purposes was $271,629,997. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $21,095,901. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $33,750,377 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $12,654,476.

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

(a) Principal amount stated in U.S. 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, 2011 amounted to $22,128,730, which is 8.4% of net assets.

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

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

(e) At December 31, 2011, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) Taxable issue.

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

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

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

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

ADR: American Depositary Receipt

CVA: Certificaten Van Aandelen

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.

MSCI: Morgan Stanley Capital International

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

REIT: Real Estate Investment Trust

SPDR: Standard & Poor's 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 issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year Australian Treasury Bond	AUD	3/15/2012	14	1,702,481	13,076
10 Year Japanese Government Bond	JPY	3/9/2012	3	5,550,604	26,456
Federal Republic of Germany Euro-Bund	EUR	3/8/2012	57	10,257,297	340,964
S&P 500 E-Mini Index	USD	3/16/2012	20	1,252,600	23,250
United Kingdom Long Gilt Bond	GBP	3/28/2012	32	5,811,947	134,122
Total unrealized appreciation					**537,868**

At December 31, 2011, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year Canadian Government Bond	CAD	3/21/2012	64	8,408,108	(115,393)
10 Year U.S. Treasury Note	USD	3/21/2012	68	8,916,500	(73,131)
2 Year U.S. Treasury Note	USD	3/30/2012	112	24,701,250	(14,190)
30 Year U.S. Treasury Bond	USD	3/21/2012	32	4,634,000	(34,473)
Federal Republic of Germany Euro-Schatz	EUR	3/8/2012	23	3,284,575	(9,418)
Ultra Long U.S. Treasury Bond	USD	3/21/2012	3	480,563	(1,977)
Total unrealized depreciation					**(248,582)**

As of December 31, 2011, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	3,688,607	NOK	22,080,000	1/20/2012	602	UBS AG
USD	4,325,068	AUD	4,360,000	1/20/2012	123,224	UBS AG
USD	4,166,293	SEK	28,790,000	1/20/2012	12,475	UBS AG
USD	323,812	NZD	420,000	1/20/2012	2,626	UBS AG
USD	440,022	JPY	34,360,000	1/20/2012	6,524	UBS AG
NOK	23,310,000	USD	3,903,575	1/20/2012	8,853	UBS AG
USD	591,236	CHF	560,000	1/20/2012	5,173	UBS AG
EUR	4,880,000	USD	6,344,815	1/20/2012	28,027	UBS AG
Total unrealized appreciation					**187,504**	

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	391,975	GBP	250,000	1/20/2012	(3,798)	UBS AG
GBP	1,650,000	USD	2,550,471	1/20/2012	(11,495)	UBS AG
SEK	17,680,000	USD	2,519,883	1/20/2012	(46,309)	UBS AG
JPY	191,310,000	USD	2,453,258	1/20/2012	(33,026)	UBS AG
NZD	2,800,000	USD	2,100,868	1/20/2012	(75,382)	UBS AG
CAD	3,230,000	USD	3,126,415	1/20/2012	(42,664)	UBS AG
AUD	1,160,000	USD	1,170,707	1/20/2012	(12,784)	UBS AG
EUR	200	USD	258	1/25/2012	(1)	JPMorgan Chase Securities, Inc.
Total unrealized depreciation					**(225,459)**	

Currency Abbreviations

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

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks and/or Other Equity Investments (j)				
Consumer Discretionary	$ 10,001,775	$ 3,220,192	$ 111	$ 13,222,078
Consumer Staples	12,715,863	2,385,840	—	15,101,703
Energy	15,181,102	1,861,700	—	17,042,802
Financials	10,720,735	7,665,208	—	18,385,943
Health Care	14,668,002	3,436,028	—	18,104,030
Industrials	11,576,574	4,244,348	0	15,820,922
Information Technology	21,232,994	3,138,698	—	24,371,692
Materials	7,665,721	975,259	10,551	8,651,531
Telecommunication Services	3,367,341	1,791,170	—	5,158,511
Utilities	6,784,463	1,568,379	—	8,352,842
Fixed Income Investments (j)				
Corporate Bonds	—	19,021,326	424,524	19,445,850
Asset Backed	—	1,991,496	—	1,991,496
Mortgage-Backed Securities Pass-throughs	—	19,380,779	—	19,380,779
Commercial Mortgage-Backed Securities	—	3,606,551	—	3,606,551
Collateralized Mortgage Obligations	—	426,259	—	426,259
Government & Agency Obligations	—	25,181,407	—	25,181,407
Loan Participations and Assignments	—	0	—	0
Municipal Bonds and Notes	—	1,056,264	—	1,056,264
Preferred Securities	—	247,660	—	247,660
Other Investments	—	—	2,000	2,000
Exchange-Traded Funds	43,119,653	—	—	43,119,653
Short-Term Investments (j)	34,055,925	—	—	34,055,925
Derivatives (k)	537,868	187,504	—	725,372
Total	**$ 191,628,016**	**$ 101,386,068**	**$ 437,186**	**$ 293,451,270**

Liabilities				
Derivatives (k)	$ (248,582)	$ (225,459)	$ —	$ (474,041)
Total	**$ (248,582)**	**$ (225,459)**	**$ —**	**$ (474,041)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(j) See Investment Portfolio for additional detailed categorizations.

(k) Derivatives include unrealized appreciation (depreciation) on futures contracts and forward foreign currency exchange contracts.

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

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Common Stocks and/or Other Equity Investments					
	Consumer Discretionary	**Industrials**	**Materials**	**Corporate Bonds**	**Other Investments**	**Total**
Balance as of December 31, 2010	$ 39	$ 0	$ 1,934	$ 414,996	$ 2,000	**$ 418,969**
Realized gains (loss)	—	—	(24)	(166,703)	—	**(166,727)**
Change in unrealized appreciation (depreciation)	(950)	0	(508)	169,362	0	**167,904**
Amortization premium/discount	—	—	—	3,175	—	**3,175**
Purchases	1,022	—	9,149	12,332	—	**22,503**
(Sales)	—	—	—	(8,638)	—	**(8,638)**
Transfers into Level 3	—	—	—	—	—	**—**
Transfers (out) of Level 3	—	—	—	—	—	**—**
Balance as of December 31, 2011	**$ 111**	**$ 0**	**$ 10,551**	**$ 424,524**	**$ 2,000**	**$ 437,186**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2011	**$ (950)**	**$ 0**	**$ (508)**	**$ 217**	**$ 0**	**$ (1,241)**

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

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $234,487,715) — including $22,128,730 of securities loaned	$	258,669,973
Investment in Daily Assets Fund Institutional (cost $22,566,323)*		22,566,323
Investment in Central Cash Management Fund (cost $11,489,602)		11,489,602
Total investments in securities, at value (cost $268,543,640)		292,725,898
Cash		153,779
Foreign currency, at value (cost $290,368)		285,700
Deposits with broker for futures contracts		1,082,917
Cash held as collateral for forward foreign currency exchange contracts		570,000
Receivable for investments sold		557,735
Receivable for Fund shares sold		136,209
Dividends receivable		269,785
Interest receivable		544,753
Receivable for variation margin on futures contracts		290,554
Unrealized appreciation on forward foreign currency exchange contracts		187,504
Foreign taxes recoverable		46,544
Other assets		4,389
Total assets		296,855,767
Liabilities		
Payable upon return of securities loaned		22,566,323
Payable for investments purchased		501,265
Payable for investments purchased — when-issued/delayed delivery securities		9,025,865
Payable for Fund shares redeemed		229,180
Unrealized depreciation on forward foreign currency exchange contracts		225,459
Accrued management fee		82,761
Other accrued expenses and payables		165,494
Total liabilities		32,796,347
Net assets, at value	**$**	**264,059,420**
Net Assets Consist of		
Undistributed net investment income		4,179,961
Net unrealized appreciation (depreciation) on:		
Investments		24,182,258
Futures		289,286
Foreign currency		(39,180)
Accumulated net realized gain (loss)		(44,103,256)
Paid-in capital		279,550,351
Net assets, at value	**$**	**264,059,420**
Class A		
Net Asset Value, offering and redemption price per share ($264,059,420 ÷ 12,288,136 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**21.49**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $89,959)	$	4,722,499
Interest		2,916,798
Income distributions — Central Cash Management Fund		28,436
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		36,064
Total income		7,703,797
Expenses:		
Management fee		1,059,151
Administration fee		288,884
Services to shareholders		2,799
Custodian fee		85,593
Audit and tax fees		83,973
Legal fees		10,479
Reports to shareholders		68,406
Trustees' fees and expenses		10,047
Other		62,972
Total expenses		1,672,304
Net investment income		**6,031,493**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments (net of foreign taxes of $2,497)		10,891,547
Swap contracts		267
Futures		(320,898)
Foreign currency		(2,083,213)
		8,487,703
Change in net unrealized appreciation (depreciation) on:		
Investments (including deferred foreign tax credit of $5,598)		(18,451,881)
Futures		444,964
Foreign currency		(119,295)
		(18,126,212)
Net gain (loss)		**(9,638,509)**
Net increase (decrease) in net assets resulting from operations	**$**	**(3,607,016)**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 6,031,493	$ 5,817,509
Net realized gain (loss)	8,487,703	18,663,004
Change in net unrealized appreciation (depreciation)	(18,126,212)	7,951,045
Net increase (decrease) in net assets resulting from operations	(3,607,016)	32,431,558
Distributions to shareholders from:		
Net investment income:		
Class A	(4,612,028)	(9,827,154)
Total distributions	(4,612,028)	(9,827,154)
Fund share transactions:		
Class A		
Proceeds from shares sold	6,208,413	4,966,734
Shares issued to shareholders in reinvestment of distributions	4,612,028	9,827,154
Payments for shares redeemed	(46,814,172)	(48,195,061)
Net increase (decrease) in net assets from Class A share transactions	(35,993,731)	(33,401,173)
Increase (decrease) in net assets	(44,212,775)	(10,796,769)
Net assets at beginning of period	308,272,195	319,068,964
Net assets at end of period (including undistributed net investment income of $4,179,961 and $4,323,414, respectively)	**$ 264,059,420**	**$ 308,272,195**

Other Information		
Class A		
Shares outstanding at beginning of period	13,930,205	15,551,177
Shares sold	285,391	238,427
Shares issued to shareholders in reinvestment of distributions	200,698	467,070
Shares redeemed	(2,128,158)	(2,326,469)
Net increase (decrease) in Class A shares	(1,642,069)	(1,620,972)
Shares outstanding at end of period	12,288,136	13,930,205

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

Financial Highlights

Class A	2011	2010	2009	2008	2007
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$22.13**	**$20.52**	**$17.35**	**$24.81**	**$24.46**
Income (loss) from investment operations:					
Net investment income[a]	.46	.39	.44	.61	.74
Net realized and unrealized gain (loss)	(.75)	1.88	3.43	(7.20)	.42
Total from investment operations	(.29)	2.27	3.87	(6.59)	1.16
Less distributions from:					
Net investment income	(.35)	(.66)	(.70)	(.87)	(.81)
Net asset value, end of period	**$21.49**	**$22.13**	**$20.52**	**$17.35**	**$24.81**
Total Return (%)	(1.42)	11.22	23.43	(27.33)[b]	4.84[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	264	308	319	307	528
Ratio of expenses before expense reductions (%)	.58	.65	.60	.64	.52
Ratio of expenses after expense reductions (%)	.58	.65	.60	.62	.51
Ratio of net investment income (%)	2.09	1.89	2.40	2.83	3.00
Portfolio turnover rate (%)	109	203	207	263	199

a Based on average shares outstanding during the period.

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

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities and exchange-traded funds ("ETFs") are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. Securities or ETFs for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. For certain international equity securities, in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Debt securities and senior loans are valued at prices supplied by independent pricing services approved by the Fund's Board. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from one or more broker-dealers. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and are categorized as Level 2.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Loan Participations and Assignments. Senior loans are portions of loans originated by banks and sold in pieces to investors. These U.S. dollar-denominated fixed and floating rate loans ("Loans") in which the Fund invests, are arranged through private negotiations between the borrower and one or more financial institutions ("Lenders"). The Fund invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of loans from third parties ("Assignments"). Participations typically result in the Fund having a contractual relationship only with the Lender, not with the borrower. The Fund has the right to receive payments of principal, interest and any fees to which it is entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Fund generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, nor any rights of set-off against the borrower, and the Fund will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Fund having a direct contractual relationship with the borrower, and the Fund may enforce compliance by the borrower with the terms of the loan agreement. Senior loans held by the Fund are generally in the form of Assignments, but the Fund may also invest in Participations. All Senior Loans involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

When-Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into a purchase 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 transactions from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

Additionally, based on the Fund's understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which it invests, the Fund will provide for foreign taxes and, where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $40,835,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 4,142,343
Capital loss carryforwards	$ (40,835,000)
Unrealized appreciation (depreciation) on investments	$ 21,095,901

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 4,612,028	$ 9,827,154

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes, with the exception of securities in default of principal.

B. Derivative Instruments

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. For the year ended December 31, 2011, the Fund bought credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer, or to economically hedge the risk of default on Fund securities. As a seller in the credit default swap contract, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Fund 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 Fund with the occurrence of a credit event. When the Fund 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 Fund.

There were no open credit default swap contracts as of December 31, 2011. For the year ended December 31, 2011, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to approximately $15,000.

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund used futures contracts to gain exposure to different parts of the yield curve while managing overall duration, and to gain an exposure to a particular asset class or to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market. In addition, the Fund seeks to enhance returns by employing a global tactical asset allocation overlay strategy by entering into futures contracts on fixed-income securities, including on financial indices. For the year ended December 31, 2011, as part of this strategy, the Fund used futures contracts to attempt to take advantage of inefficiencies within the global bond markets.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $24,575,000 to $118,748,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $50,425,000 to $95,480,000.

Forward Foreign Currency Exchange Contracts. A forward foreign currency exchange contract ("forward currency contract") is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. For the year ended December 31, 2011, the Fund entered into forward currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings, to facilitate transactions in foreign currency denominated securities and to enhance total returns. The Fund also entered into forward currency contracts as part of its global tactical asset allocation overlay strategy.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $8,555,000 to $38,947,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $5,761,000 to $33,480,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**	**Futures Contracts**	**Total**
Equity Contracts (a)	$ —	$ 23,250	$ 23,250
Interest Rate Contracts (a)	—	514,618	514,618
Foreign Exchange Contracts (b)	187,504	—	187,504
	$ 187,504	**$ 537,868**	**$ 725,372**

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

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

(b) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	**Forward Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ (248,582)	$ (248,582)
Foreign Exchange Contracts (b)	(225,459)	—	(225,459)
	$ (225,459)	**$ (248,582)**	**$ (474,041)**

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

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

(b) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Forward Contracts**	**Futures Contracts**	**Swap Contracts**	**Total**
Equity Contracts (a)	$ —	$ (1,095)	$ —	$ (1,095)
Interest Rate Contracts (a)	—	(319,803)	—	(319,803)
Credit Contracts (a)	—	—	267	267
Foreign Exchange Contracts (b)	(2,060,461)	—	—	(2,060,461)
	$ (2,060,461)	**$ (320,898)**	**$ 267**	**$ (2,381,092)**

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

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

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

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**	**Futures Contracts**	**Total**
Equity Contracts (a)	$ —	$ (89,598)	$ (89,598)
Interest Rate Contracts (a)	—	534,562	534,562
Foreign Exchange Contracts (b)	(120,603)	—	(120,603)
	$ (120,603)	**$ 444,964**	**$ 324,361**

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

(a) Change in net unrealized appreciation (depreciation) on futures

(b) Change in net unrealized appreciation (depreciation) on foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $283,070,924 and $308,072,646, respectively. Purchases and sales of U.S. Treasury obligations aggregated $15,796,668 and $20,599,733, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund or delegates such responsibility to the Fund's subadvisor. In addition to portfolio management services, the Advisor provides certain administrative services in accordance with the Amended and Restated Management Agreement.

QS Investors, LLC ("QS Investors") acts as an investment subadvisor to the Fund. QS Investors renders strategic asset allocation services and manages the portion of assets allocated to the Fund's global tactical asset allocation overlay strategy. QS Investors is paid by the Advisor for the services QS Investors provides to the Fund.

Prior to December 1, 2011, pursuant to a written contract with the Advisor, Deutsche Asset Management International GmbH ("DeAMi"), a direct, wholly owned subsidiary of Deutsche Bank AG, served as a subadvisor to the Fund and was responsible for portfolio management of a portion of the large cap value allocation of the Fund. DeAMi was paid for its services by the Advisor from its fee as Investment Advisor to the Fund. The Fund's board approved the termination of DeAMi as the Fund's subadvisor and effective December 1, 2011, the Advisor assumed all day-to-day advisory responsibilities for the Fund that were previously delegated to DeAMi.

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

First $250 million	.370%
Next $750 million	.345%
Over $1 billion	.310%

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.37% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $288,884, of which $22,450 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC aggregated $385, of which $99 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,225, of which $2,947 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Effective July 14, 2011, Deutsche Bank AG serves as securities lending agent for the Fund. For the period from July 14, 2011 through December 31, 2011, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,917.

E. Ownership of the Fund

At December 31, 2011, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 45%, 21% and 14%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

G. Subsequent Event

Effective on or about May 1, 2012, DWS Balanced VIP will change its name to DWS Global Income Builder VIP and QS Investors, LLC ("QS Investors") will no longer serve as subadvisor to the fund. The Portfolio's current focus on total return will be changed to a multi-asset allocation strategy that will focus on maximizing income as well as maintaining prospect for capital appreciation.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Balanced VIP:

We have audited the accompanying statement of assets and liabilities of DWS Balanced VIP (the "Fund"), one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Balanced VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses

(Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$ 951.30
Expenses Paid per $1,000*	$ 2.75

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,022.38
Expenses Paid per $1,000*	$ 2.85

* Expenses are equal to the Fund'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 365.

Annualized Expense Ratio	**Class A**
DWS Variable Series II — DWS Balanced VIP	.56%

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

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

Tax Information

(Unaudited)

For corporate shareholders, 47% of income dividends paid during the Fund's fiscal year ended December 31, 2011 qualified for the 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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Balanced VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") and sub-advisory agreements (the "Sub-Advisory Agreements" and together with the Agreement, the "Agreements") between DWS and Deutsche Asset Management International GmbH ("DeAMi"), an affiliate of DWS, and DWS and QS Investors, LLC ("QS Investors") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS and DeAMi are 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 DWS's, DeAMi's and QS Investors' 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, DWS, DeAMi and QS Investors provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. The Board also requested and received information regarding DWS's oversight of Fund sub-advisors, including QS Investors. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, 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 the one-, three- and five-year periods ended December 31, 2010.

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 DWS, DeAMi and QS Investors historically have been and continue to be satisfactory.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, 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 a 0.10% fee paid to DWS 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, 2010). With respect to the sub-advisory fees paid to DeAMi and QS Investors, the Board noted that the fees are paid by DWS 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 (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS, DeAMi and QS Investors.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available. The Board did not consider the profitability of QS Investors with respect to the Fund. The Board noted that DWS pays QS Investors' fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DWS.

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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and QS Investors and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and QS Investors and their affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS and QS Investors 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 DWS and QS Investors related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DWS to the oversight of QS Investors' compliance program and compliance with the applicable fund policies and procedures.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2BAL-2 (R-025825-1 2/12)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Blue Chip VIP

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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Any Fund that focuses in a particular segment of the market will generally be more volatile than a Fund that invests more broadly. Stocks may decline in value. The fund may lend securities to approved institutions. See the prospectus for details.

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

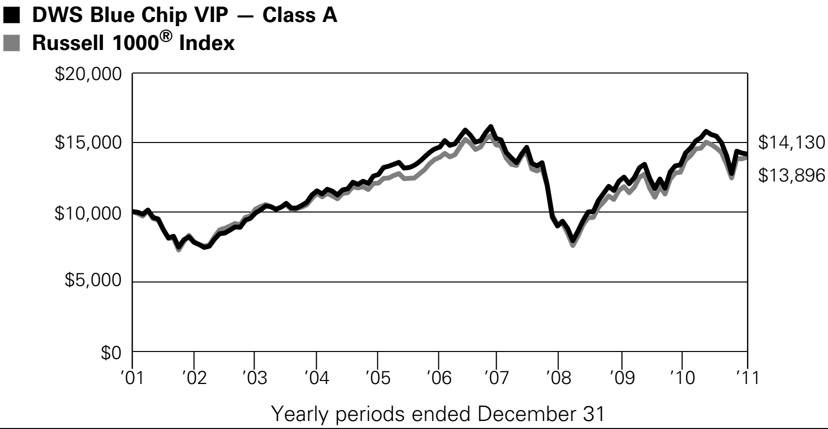
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 0.76% and 1.02% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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 U.S. 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 do not reflect any fees or expenses and 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	$9,949	$15,164	$9,653	$14,130
	Average annual total return	–0.51%	14.89%	–0.70%	3.52%
Russell 1000 Index	Growth of $10,000	$10,150	$15,134	$9,990	$13,896
	Average annual total return	1.50%	14.81%	–0.02%	3.34%

DWS Blue Chip VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$9,914	$15,024	$9,534	$16,047
	Average annual total return	–0.86%	14.53%	–0.95%	5.11%
Russell 1000 Index	Growth of $10,000	$10,150	$15,134	$9,990	$15,939
	Average annual total return	1.50%	14.81%	–0.02%	5.03%

The growth of $10,000 is cumulative.

* The Fund commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.

Management Summary

December 31, 2011 (Unaudited)

Despite heightened volatility in the second half of the year, U.S. equities — as gauged by the Fund's benchmark, the Russell 1000® Index — produced a narrow gain of 1.50% in 2011.[1] The Fund returned –0.51% (Class A shares, unadjusted for contract charges), but it modestly underperformed the benchmark.

The Fund's stock selection process worked best in the health care sector, where we held a number of companies whose steady fundamentals enabled them to outperform in an unstable environment. Our top performers in health care were the pharmaceutical giant Bristol-Myers Squibb Co., the benefits providers UnitedHealth Group, Inc. and Humana, Inc., and the biotechnology company Biogen Idec, Inc. Our stock selection also added value in the financial sector, where the largest contributions to performance came from our underweights in major banking and brokerage stocks that lagged the broader sector by a substantial margin.[2] The consumer staples and consumer discretionary sectors were also areas of strength for the Fund.[3,4]

Unfortunately, these positives were outweighed by our underperformance in other segments of the market. The largest shortfall occurred in information technology, where our positions in Computer Sciences Corp. and Vishay Intertechnology, Inc. lagged significantly. The materials and industrials sectors also proved to be challenging areas for the Fund.

As we move into 2012, we believe that uncertainty continues to hang over the U.S. equity market. Questions about the direction of economic growth, the ultimate resolution of the European debt crisis and the ability of China's government to engineer a "soft landing" in the country's economy are all issues that will likely have an impact on market performance. At the same time, we believe that the combination of improving earnings growth and reasonable valuations for the overall market provides a favorable backdrop for bottom-up stock selection.

Please note that on or about April 30, 2012, DWS Blue Chip VIP will merge into the DWS Variable Series I — DWS Core Equity VIP (see Note G in Notes to Financial Statements).

Robert Wang
Russell Shtern, CFA
Portfolio Managers, QS Investors, LLC
Subadvisor to the Fund

1 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 U.S. 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 do not reflect fees or expenses and it is not possible to invest directly into an index.

2 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

3 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

4 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	99%	99%
Cash Equivalents*	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/11**	**12/31/10**
Information Technology	20%	19%
Financials	17%	17%
Health Care	14%	14%
Energy	14%	11%
Consumer Discretionary	10%	11%
Industrials	9%	12%
Consumer Staples	8%	7%
Materials	6%	5%
Utilities	1%	2%
Telecommunication Services	1%	2%
	100%	100%

* In order to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market, the Fund invests in futures contracts.

Asset allocation and sector diversification are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 99.1%		
Consumer Discretionary 10.0%		
Auto Components 0.3%		
Goodyear Tire & Rubber Co.*	15,800	223,886
Lear Corp.	2,300	91,540
		315,426
Automobiles 0.6%		
General Motors Co.*	28,900	**585,803**
Hotels Restaurants & Leisure 1.0%		
Carnival Corp.	5,600	182,784
Starbucks Corp.	12,500	575,125
Wyndham Worldwide Corp.	6,600	249,678
		1,007,587
Household Durables 0.4%		
Garmin Ltd.	3,400	135,354
Whirlpool Corp.	4,800	227,760
		363,114
Leisure Equipment & Products 0.1%		
Polaris Industries, Inc. (a)	1,400	**78,372**
Media 2.9%		
CBS Corp. "B"	41,400	1,123,596
Discovery Communications, Inc. "A"*	2,100	86,037
Interpublic Group of Companies, Inc.	16,700	162,491
McGraw-Hill Companies, Inc.	3,400	152,898
News Corp. "A"	23,200	413,888
Time Warner, Inc.	14,900	538,486
Viacom, Inc. "B"	6,100	277,001
		2,754,397
Multiline Retail 1.7%		
Dillard's, Inc. "A" (a)	13,208	592,775
Macy's, Inc.	31,000	997,580
Sears Holdings Corp.* (a)	2,600	82,628
		1,672,983
Specialty Retail 1.8%		
Aaron's, Inc.	3,700	98,716
Best Buy Co., Inc.	33,100	773,547
Foot Locker, Inc.	4,000	95,360
Limited Brands, Inc.	12,900	520,515
Orchard Supply Hardware Stores Corp. "A"*	49	204
The Gap, Inc.	13,500	250,425
		1,738,767
Textiles, Apparel & Luxury Goods 1.2%		
VF Corp.	8,800	**1,117,512**
Consumer Staples 8.6%		
Food & Staples Retailing 1.8%		
Costco Wholesale Corp.	4,600	383,272
CVS Caremark Corp.	29,000	1,182,620
Whole Foods Market, Inc.	2,400	166,992
		1,732,884
Food Products 3.4%		
Archer-Daniels-Midland Co.	6,600	188,760
Bunge Ltd.	2,500	143,000
Fresh Del Monte Produce, Inc.	3,400	85,034
Kraft Foods, Inc. "A"	42,400	1,584,064

	Shares	Value ($)
Smithfield Foods, Inc.*	5,300	128,684
Tyson Foods, Inc. "A"	53,900	1,112,496
		3,242,038
Household Products 0.5%		
Kimberly-Clark Corp.	3,200	235,392
Procter & Gamble Co.	4,300	286,853
		522,245
Personal Products 0.7%		
Avon Products, Inc.	6,900	120,543
Herbalife Ltd.	8,100	418,527
Nu Skin Enterprises, Inc. "A" (a)	2,500	121,425
		660,495
Tobacco 2.2%		
Philip Morris International, Inc.	26,600	**2,087,568**
Energy 13.6%		
Energy Equipment & Services 2.1%		
Nabors Industries Ltd.*	9,600	166,464
National Oilwell Varco, Inc.	20,800	1,414,192
Transocean Ltd.	10,300	395,417
		1,976,073
Oil, Gas & Consumable Fuels 11.5%		
Alpha Natural Resources, Inc.*	25,900	529,137
Apache Corp.	4,800	434,784
Canadian Natural Resources Ltd.	9,600	358,752
Chevron Corp. (a)	14,700	1,564,080
ConocoPhillips	26,400	1,923,768
CVR Energy, Inc.*	10,000	187,300
Denbury Resources, Inc.*	25,100	379,010
Hess Corp.	8,200	465,760
HollyFrontier Corp.	5,500	128,700
Marathon Oil Corp.	37,200	1,088,844
Marathon Petroleum Corp.	4,700	156,463
Murphy Oil Corp.	4,200	234,108
Occidental Petroleum Corp.	1,300	121,810
Petroleo Brasileiro SA (ADR)	19,300	479,605
Talisman Energy, Inc.	11,100	141,525
Tesoro Corp.* (a)	47,400	1,107,264
Valero Energy Corp.	71,900	1,513,495
W&T Offshore, Inc. (a)	5,900	125,139
Western Refining, Inc.*	10,100	134,229
		11,073,773
Financials 16.6%		
Capital Markets 1.8%		
American Capital Ltd.*	11,000	74,030
Bank of New York Mellon Corp.	9,300	185,163
E*TRADE Financial Corp.*	20,900	166,364
Morgan Stanley	20,200	305,626
Northern Trust Corp.	2,900	115,014
State Street Corp.	21,700	874,727
		1,720,924
Commercial Banks 3.2%		
Banco Santander Brasil SA (ADR)	13,800	112,332
Bank of Montreal	2,200	120,582
BB&T Corp.	7,300	183,741
Comerica, Inc.	9,700	250,260
KeyCorp	120,700	928,183
Regions Financial Corp.	72,200	310,460

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

	Shares	Value ($)
SunTrust Banks, Inc.	13,600	240,720
Zions Bancorp. (a)	56,700	923,076
		3,069,354
Consumer Finance 2.8%		
American Express Co.	4,900	231,133
Capital One Financial Corp.	32,700	1,382,883
Discover Financial Services	43,400	1,041,600
		2,655,616
Diversified Financial Services 2.7%		
Bank of America Corp.	81,600	453,696
Citigroup, Inc.	18,500	486,735
CME Group, Inc. "A"	800	194,936
IntercontinentalExchange, Inc.*	4,200	506,310
JPMorgan Chase & Co.	12,000	399,000
The NASDAQ OMX Group, Inc.*	21,700	531,867
		2,572,544
Insurance 5.7%		
ACE Ltd.	17,100	1,199,052
Aflac, Inc.	31,200	1,349,712
Allied World Assurance Co. Holdings AG	3,500	220,255
Allstate Corp.	6,500	178,165
American International Group, Inc.* (a)	9,300	215,760
Arch Capital Group Ltd.*	3,400	126,582
Chubb Corp. (a)	10,000	692,200
Genworth Financial, Inc. "A"*	12,400	81,220
Hartford Financial Services Group, Inc.	9,700	157,625
Lincoln National Corp.	8,700	168,954
MetLife, Inc.	14,300	445,874
PartnerRe Ltd.	2,500	160,525
The Travelers Companies, Inc.	5,600	331,352
Torchmark Corp.	2,000	86,780
Validus Holdings Ltd.	2,500	78,750
		5,492,806
Real Estate Investment Trusts 0.4%		
Rayonier, Inc. (REIT)	3,550	158,436
Simon Property Group, Inc. (REIT)	900	116,046
Weyerhaeuser Co. (REIT)	6,400	119,488
		393,970
Health Care 14.1%		
Biotechnology 0.7%		
Biogen Idec, Inc.*	6,500	**715,325**
Health Care Providers & Services 5.7%		
Aetna, Inc.	32,100	1,354,299
Cardinal Health, Inc.	2,000	81,220
Humana, Inc.	16,200	1,419,282
UnitedHealth Group, Inc.	31,100	1,576,148
WellPoint, Inc.	15,800	1,046,750
		5,477,699
Pharmaceuticals 7.7%		
Abbott Laboratories	7,200	404,856
Bristol-Myers Squibb Co.	37,300	1,314,452
Eli Lilly & Co.	37,200	1,546,032
Forest Laboratories, Inc.*	17,300	523,498
Merck & Co., Inc.	22,400	844,480
Par Pharmaceutical Companies, Inc.*	4,500	147,285
Pfizer, Inc.	102,900	2,226,756
Teva Pharmaceutical Industries Ltd. (ADR)	3,900	157,404
Watson Pharmaceuticals, Inc.*	3,700	223,258
		7,388,021
Industrials 8.8%		
Aerospace & Defense 3.4%		
General Dynamics Corp.	16,300	1,082,483
Honeywell International, Inc.	7,100	385,885
Northrop Grumman Corp. (a)	23,800	1,391,824
Raytheon Co.	7,976	385,879
		3,246,071
Airlines 0.7%		
Alaska Air Group, Inc.*	3,900	292,851
Southwest Airlines Co.	19,100	163,496
United Continental Holdings, Inc.* (a)	13,900	262,293
		718,640
Construction & Engineering 0.9%		
Chicago Bridge & Iron Co. NV	6,000	226,800
EMCOR Group, Inc.	5,400	144,774
Fluor Corp.	7,500	376,875
KBR, Inc.	5,100	142,137
		890,586
Industrial Conglomerates 1.1%		
Tyco International Ltd.	22,100	**1,032,291**
Machinery 1.1%		
AGCO Corp.*	9,400	403,918
Parker Hannifin Corp.	5,400	411,750
SPX Corp.	1,800	108,486
Timken Co.	2,500	96,775
		1,020,929
Professional Services 0.2%		
Manpower, Inc.	3,000	107,250
Robert Half International, Inc.	4,400	125,224
		232,474
Road & Rail 0.7%		
Ryder System, Inc.	11,800	**627,052**
Trading Companies & Distributors 0.7%		
W.W. Grainger, Inc.	3,400	**636,446**
Information Technology 19.8%		
Communications Equipment 2.3%		
Cisco Systems, Inc.	53,000	958,240
Motorola Solutions, Inc.	6,700	310,143
Nokia Oyj (ADR) (a)	203,700	981,834
		2,250,217
Computers & Peripherals 4.1%		
Apple, Inc.*	1,700	688,500
Dell, Inc.*	118,400	1,732,192
Lexmark International, Inc. "A"	6,400	211,648
SanDisk Corp.*	6,700	329,707
Seagate Technology PLC	15,000	246,000
Western Digital Corp.*	24,900	770,655
		3,978,702
Electronic Equipment, Instruments & Components 1.3%		
Arrow Electronics, Inc.*	9,000	336,690
Avnet, Inc.*	6,900	214,521
Tech Data Corp.*	6,800	335,988
Vishay Intertechnology, Inc.* (a)	36,000	323,640
		1,210,839

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

	Shares	Value ($)
Internet Software & Services 2.6%		
AOL, Inc.*	5,800	87,580
eBay, Inc.*	38,200	1,158,606
IAC/InterActiveCorp. (a)	20,000	852,000
Yahoo!, Inc.*	26,100	420,993
		2,519,179
IT Services 4.3%		
Automatic Data Processing, Inc.	14,700	793,947
Computer Sciences Corp.	13,936	330,283
Fiserv, Inc.*	5,100	299,574
International Business Machines Corp.	12,600	2,316,888
Total System Services, Inc.	8,900	174,084
Western Union Co. (a)	9,400	171,644
		4,086,420
Semiconductors & Semiconductor Equipment 3.1%		
Applied Materials, Inc.	102,300	1,095,633
Cree, Inc.*	5,600	123,424
GT Advanced Technologies, Inc.* (a)	13,900	100,636
Intel Corp.	15,500	375,875
Kulicke & Soffa Industries, Inc.*	14,000	129,500
Micron Technology, Inc.*	117,435	738,666
NVIDIA Corp.*	20,400	282,744
OmniVision Technologies, Inc.*	10,400	127,244
		2,973,722
Software 2.1%		
Activision Blizzard, Inc.	73,000	899,360
ANSYS, Inc.*	4,200	240,576
Autodesk, Inc.*	2,800	84,924
Citrix Systems, Inc.*	2,300	139,656
Electronic Arts, Inc.*	23,400	482,040
Microsoft Corp.	1,100	28,556
SAP AG (ADR)	1,700	90,015
		1,965,127
Materials 5.9%		
Chemicals 2.5%		
CF Industries Holdings, Inc.	9,200	1,333,816
Huntsman Corp.	10,100	101,000
LyondellBasell Industries NV "A"	6,700	217,683
Monsanto Co.	7,400	518,518
OM Group, Inc.*	3,700	82,843
PPG Industries, Inc. (a)	2,000	166,980
		2,420,840
Metals & Mining 2.5%		
Agnico-Eagle Mines Ltd.	4,600	167,072
ArcelorMittal	23,100	420,189
BHP Billiton Ltd. (ADR)	4,000	282,520
BHP Billiton PLC (ADR)	4,200	245,238
Coeur d'Alene Mines Corp.*	4,600	111,044
Hecla Mining Co.	20,800	108,784
Kinross Gold Corp.	21,400	243,960
Rio Tinto PLC (ADR)	7,000	342,440
United States Steel Corp. (a)	17,200	455,112
		2,376,359
Paper & Forest Products 0.9%		
Domtar Corp.	8,100	647,676
International Paper Co.	6,000	177,600
		825,276
Telecommunication Services 0.7%		
Diversified Telecommunication Services 0.2%		
Verizon Communications, Inc.	6,500	**260,780**
Wireless Telecommunication Services 0.5%		
China Mobile Ltd. (ADR)	3,900	189,111
NII Holdings, Inc.*	6,700	142,710
Sprint Nextel Corp.*	55,300	129,402
		461,223
Utilities 1.0%		
Independent Power Producers & Energy Traders 0.5%		
AES Corp.*	8,300	98,272
NRG Energy, Inc.* (a)	24,108	436,837
		535,109
Multi-Utilities 0.5%		
Ameren Corp.	13,600	**450,568**
Total Common Stocks (Cost $87,056,145)		**95,134,146**

Preferred Stock 0.0%

Consumer Discretionary

	Shares	Value ($)
Specialty Retail		
Orchard Supply Hardware Stores Corp. Series A* (Cost $219)	49	**204**

Securities Lending Collateral 8.1%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.18% (b) (c) (Cost $7,755,085)	7,755,085	**7,755,085**

Cash Equivalents 0.6%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (b) (Cost $543,334)	543,334	**543,334**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $95,354,783)†	107.8	**103,432,769**
Other Assets and Liabilities, Net	(7.8)	**(7,454,438)**
Net Assets	100.0	**95,978,331**

* Non-income producing security.

† The cost for federal income tax purposes was $96,517,029. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $6,915,740. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $10,253,079 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,337,339.

(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, 2011 amounted to $7,557,699, which is 7.9% of net assets.

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

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

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

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 E-Mini Index	USD	3/16/2012	13	814,190	**19,190**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to the Derivatives section of Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks and/or Other Equity Investments (d)	$ 95,133,942	$ —	$ 408	$ 95,134,350
Short-Term Investments (d)	8,298,419	—	—	8,298,419
Derivatives (e)	19,190	—	—	19,190
Total	**$ 103,451,551**	**$ —**	**$ 408**	**$ 103,451,959**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(d) See Investment Portfolio for additional detailed categorizations.

(e) Derivatives include unrealized appreciation (depreciation) on futures contracts.

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Common Stocks and/or Other Equity Investments		
	Common Stocks	Preferred Stock	Total
Balance as of December 31, 2010	$ —	$ —	**$ —**
Realized gain (loss)	—	—	**—**
Change in unrealized appreciation (depreciation)	(15)	(15)	**(30)**
Amortization premium/ discount	—	—	**—**
Purchases	219	219	**438**
(Sales)	—	—	**—**
Transfers into Level 3	—	—	**—**
Transfers (out) of Level 3	—	—	**—**
Balance as of December 31, 2011	**$ 204**	**$ 204**	**$ 408**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2011	**$ (15)**	**$ (15)**	**$ (30)**

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

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $87,056,364) — including $7,557,699 of securities loaned	$ 95,134,350
Investment in Daily Assets Fund Institutional (cost $7,755,085)*	7,755,085
Investment in Central Cash Management Fund (cost $543,334)	543,334
Total investments in securities, at value (cost $95,354,783)	103,432,769
Cash	895
Foreign currency, at value (cost $2,161)	2,179
Deposit with brokers for futures contracts	201,774
Receivable for Fund shares sold	163,227
Receivable for variation margin on futures contracts	19,190
Dividends receivable	109,500
Interest receivable	2,492
Foreign taxes recoverable	263
Other assets	1,742
Total assets	103,934,031

Liabilities	
Payable upon return of securities loaned	7,755,085
Payable for Fund shares redeemed	24,460
Accrued management fee	44,861
Other accrued expenses and payables	131,294
Total liabilities	7,955,700
Net assets, at value	**$ 95,978,331**

Net Assets Consist of	
Undistributed net investment income	1,069,658
Net unrealized appreciation (depreciation) on:	
Investments	8,077,986
Futures	19,190
Foreign currency	33
Accumulated net realized gain (loss)	(43,491,483)
Paid-in capital	130,302,947
Net assets, at value	**$ 95,978,331**
Class A **Net Asset Value,** offering and redemption price per share ($95,946,799 ÷ 9,143,865 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 10.49**
Class B **Net Asset Value,** offering and redemption price per share ($31,532 ÷ 2,999 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 10.51**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $2,134)	$ 1,967,697
Income distributions — Central Cash Management Fund	1,252
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	18,096
Total income	1,987,045
Expenses:	
Management fee	582,614
Administration fee	105,930
Services to shareholders	2,115
Distribution service fee (Class B)	279
Custodian fee	32,109
Legal fees	43,113
Audit and tax fees	54,366
Reports to shareholders	44,373
Trustees' fees and expenses	4,145
Other	12,229
Total expenses	881,273
Net investment income (loss)	**1,105,772**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	6,107,265
Futures	92,685
Foreign currency	(50)
	6,199,900
Change in net unrealized appreciation (depreciation) on:	
Investments	(7,553,524)
Futures	3,972
Foreign currency	(66)
	(7,549,618)
Net gain (loss)	**(1,349,718)**
Net increase (decrease) in net assets resulting from operations	**$ (243,946)**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 1,105,772	$ 1,225,775
Net realized gain (loss)	6,199,900	11,654,348
Change in net unrealized appreciation (depreciation)	(7,549,618)	528,773
Net increase (decrease) in net assets resulting from operations	(243,946)	13,408,896
Distributions to shareholders from:		
Net investment income:		
Class A	(1,181,666)	(1,575,913)
Class B	(1,333)	(1,920)
Total distributions	(1,182,999)	(1,577,833)
Fund share transactions:		
Class A		
Proceeds from shares sold	8,966,805	4,447,701
Reinvestment of distributions	1,181,666	1,575,913
Payments for shares redeemed	(21,261,573)	(20,221,768)
Net increase (decrease) in net assets from Class A share transactions	(11,113,102)	(14,198,154)
Class B		
Proceeds from shares sold	278	1,931
Reinvestment of distributions	1,333	1,920
Payments for shares redeemed	(142,932)	(19,529)
Net increase (decrease) in net assets from Class B share transactions	(141,321)	(15,678)
Increase (decrease) in net assets	(12,681,368)	(2,382,769)
Net assets at beginning of period	108,659,699	111,042,468
Net assets at end of period (including undistributed net investment income of $1,069,658 and $1,146,935, respectively)	**$ 95,978,331**	**$ 108,659,699**

Other Information		
Class A		
Shares outstanding at beginning of period	10,190,728	11,688,302
Shares sold	829,522	457,619
Shares issued to shareholders in reinvestment of distributions	101,084	153,448
Shares redeemed	(1,977,469)	(2,108,641)
Net increase (decrease) in Class A shares	(1,046,863)	(1,497,574)
Shares outstanding at end of period	**9,143,865**	**10,190,728**
Class B		
Shares outstanding at beginning of period	15,598	17,241
Shares sold	26	199
Shares issued to shareholders in reinvestment of distributions	113	186
Shares redeemed	(12,738)	(2,028)
Net increase (decrease) in Class B shares	(12,599)	(1,643)
Shares outstanding at end of period	**2,999**	**15,598**

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

Financial Highlights

Class A	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$10.65**	**$ 9.49**	**$ 7.25**	**$14.65**	**$16.17**
Income (loss) from investment operations:					
Net investment income[a]	.11	.11	.12	.12	.17
Net realized and unrealized gain (loss)	(.15)	1.19	2.27	(4.97)	.36
Total from investment operations	(.04)	1.30	2.39	(4.85)	.53
Less distributions from:					
Net investment income	(.12)	(.14)	(.15)	(.21)	(.18)
Net realized gains	—	—	—	(2.34)	(1.87)
Total distributions	(.12)	(.14)	(.15)	(2.55)	(2.05)
Net asset value, end of period	**$10.49**	**$10.65**	**$ 9.49**	**$ 7.25**	**$14.65**
Total Return (%)	(.51)	13.77	33.97	(38.49)[b]	3.50
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	96	108	111	106	242
Ratio of expenses before expense reductions (%)	.83	.76	.75	.76	.71
Ratio of expenses after expense reductions (%)	.83	.76	.75	.76	.71
Ratio of net investment income (%)	1.04	1.16	1.54	1.12	1.13
Portfolio turnover rate (%)	217	146	82	127	275

[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, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$10.68**	**$ 9.51**	**$ 7.26**	**$14.61**	**$16.12**
Income (loss) from investment operations:					
Net investment income[a]	.08	.09	.10	.04	.11
Net realized and unrealized gain (loss)	(.16)	1.19	2.27	(4.89)	.36
Total from investment operations	(.08)	1.28	2.37	(4.85)	.47
Less distributions from:					
Net investment income	(.09)	(.11)	(.12)	(.16)	(.11)
Net realized gains	—	—	—	(2.34)	(1.87)
Total distributions	(.09)	(.11)	(.12)	(2.50)	(1.98)
Net asset value, end of period	**$10.51**	**$10.68**	**$ 9.51**	**$ 7.26**	**$14.61**
Total Return (%)	(.86)	13.55	33.46	(38.48)[b]	3.15
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.03	.17	.16	.13	11
Ratio of expenses before expense reductions (%)	1.07	1.02	1.02	1.22	1.09
Ratio of expenses after expense reductions (%)	1.07	1.02	1.02	1.21	1.09
Ratio of net investment income (%)	.81	.90	1.27	.67	.75
Portfolio turnover rate (%)	217	146	82	127	275

[a] Based on average shares outstanding during the period.
[b] Total return would have been lower had certain expenses not been reduced.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to recordkeeping fees up to 0.15% and Rule 12b-1 fees under the 1940 Act equal to an annual rate of 0.25% of the average daily net assets of the Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting

Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Federal Income Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $42,030,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($9,128,000) and December 31, 2017 ($32,902,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2011 to December 31, 2011, the Fund elects to defer qualified late year losses of approximately 281,000 of net short-term realized capital losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 1,069,658
Capital loss carryforwards	$ (42,030,000)
Unrealized appreciation (depreciation) on investments	$ 6,915,740

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31,	
Fund	**2011**	**2010**
Distributions from ordinary income*	$ 1,182,999	$ 1,577,833

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Derivative Instruments

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund used futures contracts to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $814,000 to $1,585,000.

The following table summarizes the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Futures Contracts**
Equity Contracts (a)	$ 19,190

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Futures Contracts**
Equity Contracts (a)	$ 92,685

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

Change in Net Unrealized Appreciation (Depreciation)	**Futures Contracts**
Equity Contracts (a)	$ 3,972

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

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments) aggregated $228,646,662 and $239,387,083, respectively.

D. Related Parties

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

QS Investors, LLC ("QS Investors") serves as subadvisor. As a subadvisor to the Fund, QS Investors makes investment decisions and buys and sells securities for the Fund. QS Investors is paid by the Advisor for the services QS Investors provides to the Fund.

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

First $250 million	.550%
Next $750 million	.520%
Next $1.5 billion	.500%
Next $2.5 billion	.480%
Next $2.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.410%
Over $12.5 billion	.390%

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.55% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $105,930, of which $8,157 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated ($)	Unpaid at December 31, 2011
Class A	$ 177	$ 43
Class B	24	5
	$ 201	**$ 48**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2011, the Distribution Service Fee aggregated $279, of which $168 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $13,807, of which $2,853 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Ownership of the Fund

At December 31, 2011, two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 52% and 36%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 100%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

G. Fund Merger

On November 18, 2011, the Board of Directors of the Fund approved the merger of the Fund into DWS Variable Series I DWS Core Equity VIP (formerly DWS Growth & Income VIP). Completion of the merger is expected to occur on or about April 30, 2012.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Blue Chip VIP:

We have audited the accompanying statement of assets and liabilities of DWS Blue Chip VIP, one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Blue Chip VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses

(Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 917.00	$ 914.70
Expenses Paid per $1,000*	$ 4.11	$ 5.55

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,020.92	$1,019.41
Expenses Paid per $1,000*	$ 4.33	$ 5.85

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

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Blue Chip VIP	.85%	1.15%

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

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

Tax Information

(Unaudited)

For corporate shareholders, 100% of income dividends paid during the Fund's fiscal year ended December 31, 2011 qualified for the 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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Blue Chip VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DWS and QS Investors, LLC ("QS Investors") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS's and QS Investors' 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, DWS and QS Investors provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. The Board also requested and received information regarding DWS's oversight of Fund sub-advisors, including QS Investors. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd 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 three-year period and underperformed its benchmark in the one- and five-year periods ended December 31, 2010.

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 DWS and QS Investors 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 a 0.10% fee paid to DWS 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, 2010). With respect to the sub-advisory fee paid to QS Investors, the Board noted that the fee is paid by DWS 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 (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS and QS Investors.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available. The Board did not consider the profitability of QS Investors with respect to the Fund. The Board noted that DWS pays QS Investors' fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DWS.

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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and QS Investors and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and QS Investors and their affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS and QS Investors 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 DWS and QS Investors related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DWS to the oversight of the investment sub-advisor's compliance program and compliance with the applicable fund policies and procedures.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2BC-2 (R-025826-1 2/12)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Core Fixed Income VIP

DWS INVESTMENTS
Deutsche Bank Group

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

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The fund may engage in forward commitment transactions which could subject the fund to counterparty and leverage risk. Leverage can magnify losses. In the current market environment, mortgage backed securities are experiencing increased volatility. The fund may lend securities to approved institutions. See the prospectus for details.

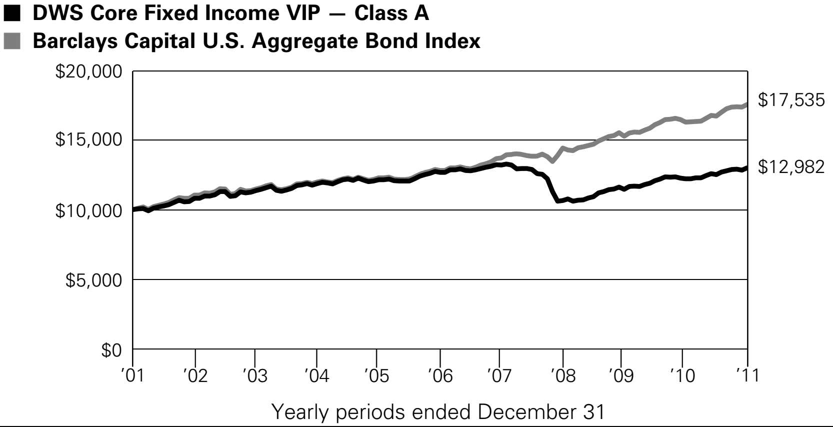
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 is 0.72% for Class A shares, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in DWS Core Fixed Income VIP



Barclays Capital U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with average maturities of one year or more.

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

Comparative Results

DWS Core Fixed Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,641	$12,209	$10,260	$12,982
	Average annual total return	6.41%	6.88%	0.51%	2.64%
Barclays Capital U.S. Aggregate Bond Index	Growth of $10,000	$10,784	$12,171	$13,701	$17,535
	Average annual total return	7.84%	6.77%	6.50%	5.78%

The growth of $10,000 is cumulative.

Management Summary

During the 12-month period ended December 31, 2011, the U.S. Federal Reserve Board (the Fed) maintained the benchmark federal funds rate (overnight bank lending rate) at near-zero levels and engaged in bond purchases designed to lower longer-term interest rates as it sought to stimulate economic growth. U.S. Treasury yields fell from already historically low levels for the 12 months, as for much of the year investors sought a refuge from the debt crisis in Europe. Most sectors of the bond market benefited from the declining rate environment, with high-quality corporate bonds benefiting in particular, as investors sought yields in an environment of extraordinarily low interest rates. Corporate bonds continued to be supported by strong profits and balance sheets over the period.

During the 12-month period ended December 31, 2011, the Fund provided a total return of 6.41% (Class A shares, unadjusted for contract charges), compared with the 7.84% return of its benchmark, the Barclays Capital U.S. Aggregate Bond Index.[1]

The downward shift in yields over the year was much less of a factor in portfolio performance than our positioning within sectors that trade at a yield spread over U.S. Treasuries, such as corporate bonds and mortgage-backed securities (MBS).[2,3] In the first half of the year, overweighting of these sectors positively contributed to relative performance as investors were compensated for incremental risk exposure.[4] The Fund also benefitted from its selections within MBS, focusing on securities with characteristics that provided some protection against prepayments on underlying mortgages. As these credit-oriented sectors approached fuller valuations, the Fund shifted its exposure to shorter maturities to better protect against any potential adverse widening in spreads. However, as contagion fears stemming from the European debt crisis reignited in the third quarter, these holdings suffered. Similarly, the Fund's underweighting of U.S. Treasuries also detracted from performance in the quarter as investors engaged in a flight to safety. After yield spreads widened, we took the opportunity to increase exposure to corporates and MBS, which helped performance late in the period as market anxiety with respect to Europe subsided somewhat. Entering 2012, we believe bond markets may hinge on European efforts to stabilize government and banking finances. Overall, we anticipate a continuation of choppy, but trendless, interest rate movements.

Please note that on or about April 30, 2012, DWS Core Fixed Income VIP will merge into the DWS Variable Series I — DWS Bond VIP (see Note G in Notes to Financial Statements).

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

1 The Barclays Capital U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with an average maturity of one year or more.

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

2 "Spread" refers to the excess yield various bond sectors offer over financial instruments with similar maturities. When spreads widen, yield differences are increasing between bonds in the two sectors being compared. When spreads narrow, the opposite is true.

3 Mortgage-backed securities (MBS) are bonds that are secured by mortgage debt.

4 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Net Assets)	**12/31/11**	**12/31/10**
Mortgage-Backed Securities Pass-Throughs	43%	38%
Government & Agency Obligations	38%	34%
Corporate Bonds	24%	29%
Municipal Bonds and Notes	8%	8%
Commercial Mortgage-Backed Securities	7%	9%
Asset-Backed	4%	2%
Collateralized Mortgage Obligations	3%	2%
Cash Equivalents and Other Assets and Liabilities, net	(27)%	(22)%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/11**	**12/31/10**
AAA	72%	64%
AA	5%	7%
A	8%	12%
BBB	12%	13%
BB	1%	2%
B	0%	1%
Not Rated	2%	1%
	100%	100%

Interest Rate Sensitivity	**12/31/11**	**12/31/10**
Effective Maturity	7.1 years	7.0 years
Effective Duration	4.9 years	5.0 years

Asset allocation and Interest Rate Sensitivity are subject to change.

Effective maturity is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

The quality ratings represent the higher 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. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Principal Amount ($)	Value ($)
Corporate Bonds 24.1%		
Consumer Discretionary 3.7%		
AMC Entertainment, Inc., 8.75%, 6/1/2019	143,000	148,005
DIRECTV Holdings LLC:		
3.125%, 2/15/2016	200,000	202,599
6.35%, 3/15/2040	112,000	127,413
Johnson Controls, Inc., 3.75%, 12/1/2021	220,000	227,157
MGM Resorts International, 9.0%, 3/15/2020	500,000	553,750
NBCUniversal Media LLC, 5.95%, 4/1/2041	172,000	202,171
Time Warner Cable, Inc., 4.0%, 9/1/2021	230,000	232,697
Time Warner, Inc., 7.625%, 4/15/2031	250,000	322,720
Viacom, Inc., 2.5%, 12/15/2016	530,000	529,799
Yum! Brands, Inc.:		
3.875%, 11/1/2020	300,000	306,794
5.3%, 9/15/2019	100,000	111,884
		2,964,989
Consumer Staples 2.2%		
Anheuser-Busch InBev Worldwide, Inc., 7.75%, 1/15/2019	400,000	518,064
CVS Caremark Corp., 5.75%, 5/15/2041	105,000	125,027
Kellogg Co., 4.0%, 12/15/2020	200,000	211,673
Kraft Foods, Inc., 5.375%, 2/10/2020	525,000	605,772
Kroger Co.:		
5.4%, 7/15/2040	150,000	161,602
6.9%, 4/15/2038	100,000	128,591
		1,750,729
Energy 3.1%		
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	280,000	365,005
Encana Corp., 5.15%, 11/15/2041	90,000	91,879
Enterprise Products Operating LLC, 4.6%, 8/1/2012	500,000	507,357
ONEOK Partners LP, 6.15%, 10/1/2016	321,000	368,607
Plains All American Pipeline LP, 8.75%, 5/1/2019	350,000	447,123
Weatherford International Ltd., 5.125%, 9/15/2020	550,000	571,548
Williams Partners LP, 4.0%, 11/15/2021	88,000	90,360
		2,441,879
Financials 6.3%		
American Express Credit Corp., 2.8%, 9/19/2016	700,000	703,430
Bank of America Corp.:		
5.65%, 5/1/2018	365,000	347,755
6.5%, 8/1/2016	80,000	80,566
Bank of New York Mellon Corp., 2.4%, 1/17/2017	500,000	498,870
Bunge Ltd. Finance Corp., 4.1%, 3/15/2016	103,000	106,659
Citigroup, Inc., 4.5%, 1/14/2022	182,000	175,088
CNA Financial Corp., 5.75%, 8/15/2021	403,000	411,232
JPMorgan Chase & Co., 5.125%, 9/15/2014	500,000	527,150
Lincoln National Corp., 8.75%, 7/1/2019	230,000	279,763
National Rural Utilities Cooperative Finance Corp., 10.375%, 11/1/2018	200,000	287,751
Nationwide Financial Services, Inc., 144A, 5.375%, 3/25/2021	183,000	179,751
Nordea Bank AB, 144A, 4.875%, 5/13/2021	350,000	295,823
PNC Funding Corp., 5.25%, 11/15/2015	450,000	489,440
Prudential Financial, Inc., 7.375%, 6/15/2019	50,000	59,103
SunTrust Banks, Inc., 3.6%, 4/15/2016	150,000	152,750
The Goldman Sachs Group, Inc., 6.0%, 6/15/2020	380,000	389,258
		4,984,389
Health Care 3.0%		
Amgen, Inc., 5.15%, 11/15/2041	220,000	228,071
Express Scripts, Inc.:		
6.25%, 6/15/2014	205,000	223,437
7.25%, 6/15/2019	405,000	482,626
Gilead Sciences, Inc., 4.4%, 12/1/2021	165,000	174,684
Quest Diagnostics, Inc.:		
4.7%, 4/1/2021	650,000	692,952
6.4%, 7/1/2017	500,000	591,370
		2,393,140
Industrials 0.5%		
Burlington Northern Santa Fe LLC, 3.45%, 9/15/2021	60,000	61,842
CSX Corp., 6.15%, 5/1/2037	250,000	300,637
		362,479
Information Technology 1.0%		
Applied Materials, Inc., 5.85%, 6/15/2041	400,000	455,889
Hewlett-Packard Co., 3.3%, 12/9/2016	300,000	306,331
		762,220
Materials 2.2%		
ArcelorMittal, 6.125%, 6/1/2018	500,000	493,781
Corp Nacional del Cobre de Chile, 144A, 3.75%, 11/4/2020	550,000	558,550
Dow Chemical Co.:		
4.125%, 11/15/2021	61,000	62,569
4.25%, 11/15/2020	285,000	296,240
Ecolab, Inc.:		
4.35%, 12/8/2021	255,000	272,312
5.5%, 12/8/2041	57,000	63,164
		1,746,616
Telecommunication Services 1.1%		
American Tower Corp., 7.25%, 5/15/2019	250,000	283,076
AT&T, Inc., 3.875%, 8/15/2021	90,000	95,198
Frontier Communications Corp., 7.875%, 4/15/2015	500,000	506,875
		885,149

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

	Principal Amount ($)	Value ($)
Utilities 1.0%		
DTE Energy Co., 7.625%, 5/15/2014	148,000	168,184
FirstEnergy Solutions Corp., 6.8%, 8/15/2039	292,000	326,971
Sempra Energy, 6.5%, 6/1/2016	290,000	338,285
		833,440
Total Corporate Bonds (Cost $18,315,549)		**19,125,030**

Mortgage-Backed Securities Pass-Throughs 43.0%

	Principal Amount ($)	Value ($)
Federal Home Loan Mortgage Corp.:		
4.0%, 8/1/2039	1,175,178	1,240,685
4.5%, 6/1/2041	1,896,253	2,008,547
6.0%, with various maturities from 12/1/2034 until 3/1/2038	652,350	720,151
Federal National Mortgage Association:		
2.458%*, 8/1/2037	186,598	198,727
3.0%, 6/1/2026 (a)	5,137,500	5,305,271
3.5%, 2/1/2041 (a)	4,000,000	4,114,375
4.0%, with various maturities from 2/1/2040 until 9/1/2040 (a)	15,547,598	16,335,982
4.5%, 10/1/2033	320,583	341,321
5.0%, 8/1/2040	268,283	289,693
5.108%*, 9/1/2038	85,810	90,016
5.5%, with various maturities from 12/1/2032 until 9/1/2036	1,827,986	1,991,038
6.0%, 4/1/2024	542,017	604,902
6.5%, with various maturities from 3/1/2017 until 4/1/2037	818,811	912,820
8.0%, 9/1/2015	8,404	9,026
Total Mortgage-Backed Securities Pass-Throughs (Cost $33,501,784)		**34,162,554**

Asset-Backed 3.6%

Credit Card Receivables 1.0%

	Principal Amount ($)	Value ($)
Citibank Omni Master Trust, "A14", Series 2009-A14A, 144A, 3.028%*, 8/15/2018	750,000	**786,755**
Student Loans 2.6%		
Nelnet Student Loan Trust:		
"A1", Series 2007-1, 0.516%*, 11/27/2018	763,167	752,530
"A4", Series 2006-1, 0.585%*, 11/23/2022	1,300,000	1,281,720
		2,034,250
Total Asset-Backed (Cost $2,821,217)		**2,821,005**

Commercial Mortgage-Backed Securities 7.3%

	Principal Amount ($)	Value ($)
Banc of America Commercial Mortgage, Inc., "A4", Series 2007-1, 5.451%, 1/15/2049	900,000	977,803
Banc of America Merrill Lynch Commercial Mortgage, Inc., "A2", Series 2007-2, 5.634%, 4/10/2049	156,961	160,551
Bear Stearns Commercial Mortgage Securities, Inc., "A4", Series 2007-PW16, 5.715%*, 6/11/2040	100,000	109,481
Greenwich Capital Commercial Funding Corp., "A4", Series 2007-GG9, 5.444%, 3/10/2039	835,000	903,792
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"A4", Series 2007-C1, 5.716%, 2/15/2051	485,000	525,029
"A4", Series 2007-LD12, 5.882%, 2/15/2051	720,000	782,004
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	400,000	438,159
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 5.834%*, 6/12/2050	900,000	965,693
Morgan Stanley Reremic Trust, "A4A", Series 2009-GG10, 144A, 5.79%*, 8/12/2045	850,000	952,969
Total Commercial Mortgage-Backed Securities (Cost $5,679,474)		**5,815,481**

Collateralized Mortgage Obligations 3.2%

	Principal Amount ($)	Value ($)
Federal National Mortgage Association:		
"IO", Series 2010-143, Interest Only, 5.0%, 12/25/2025	69,834	8,456
"QD", Series 2005-29, 5.0%, 8/25/2033	435,000	469,263
Government National Mortgage Association:		
"IU", Series 2010-164, Interest Only, 2.0%, 12/20/2013	2,160,620	58,308
"CI", Series 2010-145, Interest Only, 4.0%, 11/20/2035	592,182	41,331
"MI", Series 2010-85, Interest Only, 4.5%, 1/20/2036	1,004,437	106,246
"GI", Series 2010-89, Interest Only, 4.5%, 5/20/2039	899,092	145,210
"EI", Series 2010-134, Interest Only, 4.5%, 11/20/2039	469,445	74,415
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040	1,879,798	247,982
"IM", Series 2010-87, Interest Only, 4.75%, 3/20/2036	1,154,975	134,666
"JI", Series 2010-67, Interest Only, 5.0%, 10/20/2033	1,585,147	118,993
"IA", Series 2010-58, Interest Only, 5.0%, 3/20/2039	1,814,029	301,295
"BI", Series 2010-168, Interest Only, 5.0%, 4/20/2040	3,934,559	564,029
MASTR Alternative Loans Trust, "5A1", Series 2005-1, 5.5%, 1/25/2020	245,928	251,496
Total Collateralized Mortgage Obligations (Cost $3,291,765)		**2,521,690**

Government & Agency Obligations 38.0%

Sovereign Bonds 0.5%

	Principal Amount ($)	Value ($)
Republic of Poland, 5.0%, 3/23/2022	400,000	**402,000**
U.S. Treasury Obligations 37.5%		
U.S. Treasury Bill, 0.015%**, 3/8/2012 (b)	391,000	390,987
U.S. Treasury Bonds:		
4.75%, 2/15/2037	3,000,000	4,074,843
5.375%, 2/15/2031	2,500,000	3,563,280
7.125%, 2/15/2023	700,000	1,058,641

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

	Principal Amount ($)	Value ($)
U.S. Treasury Inflation-Indexed Note, 0.625%, 7/15/2021	1,908,873	2,042,047
U.S. Treasury Notes:		
0.5%, 10/15/2013 (c)	5,000,000	5,021,680
1.0%, 1/15/2014	955,000	969,102
1.0%, 8/31/2016	4,500,000	4,549,221
1.5%, 7/31/2016	3,000,000	3,101,484
2.0%, 11/15/2021 (c)	2,100,000	2,123,953
3.625%, 2/15/2020 (c)	2,500,000	2,899,415
		29,794,653
Total Government & Agency Obligations (Cost $28,391,166)		**30,196,653**

Municipal Bonds and Notes 7.5%

	Principal Amount ($)	Value ($)
California, University Revenues, Build America Bonds, 5.946%, 5/15/2045 (d)	180,000	209,748
Chicago, IL, Transit Authority, Sales Tax Receipts Revenue, Build America Bonds, Series B, 6.2%, 12/1/2040 (d)	265,000	299,347
Glendale, AZ, Municipal Property Corp., Excise Tax Revenue, Series B, 6.157%, 7/1/2033, INS: AGMC (d)	420,000	496,545
Jicarilla, NM, Sales & Special Tax Revenue, Apache Nation Revenue, 144A, 5.2%, 12/1/2013 (d)	370,000	369,238
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (d)	775,000	795,762
Louisville & Jefferson County, KY, Metropolitan Sewer District & Drain System, Build America Bonds, 6.25%, 5/15/2043 (d)	200,000	250,976
Miami-Dade County, FL, Educational Facilities Authority Revenue, University of Miami, Series B, 6.1%, 4/1/2015 (d)	680,000	700,658
Michigan, Western Michigan University Revenue, 4.41%, 11/15/2014, INS: AMBAC (d)	475,000	482,752
Nashville & Davidson County, TN, Metropolitan Government, Convention Center Authority Revenue, Build America Bonds, Series A2, 7.431%, 7/1/2043 (d)	250,000	311,263
New Jersey, Economic Development Authority Revenue, Series B, 6.5%, 11/1/2014, INS: AGC (d)	585,000	658,300
New Jersey, State Educational Facilities Authority Revenue, NJ City University, Series F, 6.85%, 7/1/2036, INS: AGC (d)	395,000	457,687
Newark, NJ, Pension Obligation, 5.853%, 4/1/2022, INS: AGMC (d)	865,000	921,909
Total Municipal Bonds and Notes (Cost $5,486,874)		**5,954,185**

Securities Lending Collateral 11.6%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.18% (e) (f) (Cost $9,221,105)	9,221,105	**9,221,105**

Cash Equivalents 1.7%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (e) (Cost $1,318,988)	1,318,988	**1,318,988**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $108,027,922)†	140.0	**111,136,691**
Other Assets and Liabilities, Net	(40.0)	**(31,735,961)**
Net Assets	100.0	**79,400,730**

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2011.

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

† The cost for federal income tax purposes was $108,027,922. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $3,108,769. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,103,525 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $994,756.

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

(b) At December 31, 2011, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(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, 2011 amounted to $9,011,800, which is 11.3% of net assets.

(d) Taxable issue.

(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 Fund is net of borrower rebates.

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

AGC: Assured Guaranty Corp.

AGMC: Assured Guaranty Municipal Corp.

AMBAC: Ambac Financial Group, Inc.

INS: Insured

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.

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

Included in the portfolio are investments in mortgage- or asset-backed securities, which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal Home Loan Mortgage Corp. and Federal National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in the investment portfolio.

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
Ultra Long U.S. Treasury Bond	USD	3/12/2012	10	1,601,875	**6,542**

At December 31, 2011, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year U.S. Treasury Note	USD	3/12/2012	38	4,982,750	(34,087)
30 Year U.S. Treasury Bond	USD	3/12/2012	90	13,033,125	(97,635)
Total unrealized depreciation					**(131,722)**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income (g)				
Corporate Bonds	$ —	$ 19,125,030	$ —	$ 19,125,030
Mortgage-Backed Securities Pass-Throughs	—	34,162,554	—	34,162,554
Asset-Backed	—	2,821,005	—	2,821,005
Commercial Mortgage-Backed Securities	—	5,815,481	—	5,815,481
Collateralized Mortgage Obligations	—	2,521,690	—	2,521,690
Government & Agency Obligations	—	30,196,653	—	30,196,653
Municipal Bonds and Notes	—	5,954,185	—	5,954,185
Short-Term Investments (g)	10,540,093	—	—	10,540,093
Derivatives (h)	6,542	—	—	6,542
Total	**$ 10,546,635**	**$ 100,596,598**	**$ —**	**$ 111,143,233**

Liabilities				
Derivatives (h)	$ (131,722)	$ —	$ —	$ (131,722)
Total	**$ (131,722)**	**$ —**	**$ —**	**$ (131,722)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(g) See Investment Portfolio for additional detailed categorizations.

(h) Derivatives include unrealized appreciation (depreciation) on futures contracts.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $97,487,829) — including $9,011,800 of securities loaned	$	100,596,598
Investment in Daily Assets Fund Institutional (cost $9,221,105)*		9,221,105
Investment in Central Cash Management Fund (cost $1,318,988)		1,318,988
Total investments in securities, at value (cost $108,027,922)		111,136,691
Cash		10,000
Receivable for Fund shares sold		197,888
Interest receivable		671,213
Foreign taxes recoverable		644
Other assets		1,525
Total assets		112,017,961
Liabilities		
Payable upon return of securities loaned		9,221,105
Payable for investment purchases — delayed delivery securities		23,251,170
Payable for Fund shares redeemed		1,869
Payable for daily variation margin on futures contracts		32,108
Accrued management fee		18,631
Other accrued expenses and payables		92,348
Total liabilities		32,617,231
Net assets, at value	**$**	**79,400,730**
Net Assets Consist of		
Undistributed net investment income		2,535,633
Net unrealized appreciation (depreciation) on:		
Investments		3,108,769
Futures		(125,180)
Accumulated net realized gain (loss)		(51,935,189)
Paid-in capital		125,816,697
Net assets, at value	**$**	**79,400,730**
Class A		
Net Asset Value, offering and redemption price per share ($79,400,730 ÷ 8,774,893 outstanding shares of beneficial interest, no par value, 24,742,586 shares authorized)	**$**	**9.05**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Interest	$	3,176,801
Income distributions — Central Cash Management Fund		12,246
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		4,899
Total income		3,193,946
Expenses:		
Management fee		411,769
Administration fee		82,354
Services to shareholders		1,785
Custodian fee		19,133
Audit and tax fees		49,249
Legal fees		25,610
Reports to shareholders		34,453
Trustees' fees and expenses		3,469
Other		10,794
Total expenses before expense reductions		638,616
Expense reductions		(28,271)
Total expenses after expense reductions		610,345
Net investment income (loss)		**2,583,601**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		3,139,913
Swap contracts		(63,165)
Futures		(694,123)
		2,382,625
Change in net unrealized appreciation (depreciation) on:		
Investments		834,684
Futures		(742,571)
		92,113
Net gain (loss)		**2,474,738**
Net increase (decrease) in net assets resulting from operations	**$**	**5,058,339**

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, 2011	Years Ended December 31, 2010
Operations:		
Net investment income (loss)	$ 2,583,601	$ 2,528,721
Net realized gain (loss)	2,382,625	4,071,997
Change in net unrealized appreciation (depreciation)	92,113	(457,850)
Net increase (decrease) in net assets resulting from operations	5,058,339	6,142,868
Distributions to shareholders from:		
Net investment income:		
Class A	(2,313,385)	(5,749,285)
Total distributions	(2,313,385)	(5,749,285)
Fund share transactions:		
Class A		
Proceeds from shares sold	6,117,054	26,314,018
Shares converted*	—	53,582
Reinvestment of distributions	2,313,385	5,749,285
Payments for shares redeemed	(19,622,915)	(38,312,024)
Net increase (decrease) in net assets from Class A share transactions	(11,192,476)	(6,195,139)
Class B		
Proceeds from shares sold	—	785
Shares converted*	—	(53,582)
Payments for shares redeemed	—	(78)
Net increase (decrease) in net assets from Class B share transactions	—	(52,875)
Increase (decrease) in net assets	(8,447,522)	(5,854,431)
Net assets at beginning of period	87,848,252	93,702,683
Net assets at end of period (including undistributed net investment income of $2,535,633 and $2,279,173, respectively)	**$ 79,400,730**	**$ 87,848,252**

Other Information		
Class A		
Shares outstanding at beginning of period	10,037,687	10,676,602
Shares sold	689,569	3,026,894
Shares converted*	—	5,994
Shares issued to shareholders in reinvestment of distributions	268,064	681,204
Shares redeemed	(2,220,427)	(4,353,007)
Net increase (decrease) in Class A shares	(1,262,794)	(638,915)
Shares outstanding at end of period	**8,774,893**	**10,037,687**
Class B		
Shares outstanding at beginning of period	—	5,948
Shares sold	—	89
Shares converted*	—	(6,028)
Shares issued to shareholders in reinvestment of distributions	—	(9)
Net increase (decrease) in Class B shares	—	(5,948)
Shares outstanding at end of period	**—**	**—**

* On February 5, 2010, Class B shares converted into Class A shares.

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

Financial Highlights

Class A	2011	2010	2009	2008	2007
	Years Ended December 31,				
Selected Per Share Date					
Net asset value, beginning of period	**$ 8.75**	**$ 8.77**	**$ 8.90**	**$11.82**	**$11.86**
Income (loss) from investment operations:					
Net investment income[a]	.28	.23	.39	.57	.56
Net realized and unrealized gain (loss)	.27	.32	.24	(2.72)	(.08)
Total from investment operations	.55	.55	.63	(2.15)	.48
Less distributions from:					
Net investment income	(.25)	(.57)	(.76)	(.77)	(.52)
Net asset value, end of period	**$ 9.05**	**$ 8.75**	**$ 8.77**	**$ 8.90**	**$11.82**
Total Return (%)	6.41[b]	6.51	7.72[c]	(19.33)[b]	4.17
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	79	88	94	110	186
Ratio of expenses before expense reductions (%)	.78	.72	.59	.70	.66
Ratio of expenses after expense reductions (%)	.74	.72	.59	.70	.66
Ratio of net investment income (%)	3.14	2.62	4.50	5.36	4.78
Portfolio turnover rate (%)	265	356	222	215	209

[a] Based on average shares outstanding during the period.

[b] Total returns would have been lower had certain expenses not been reduced.

[c] 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 0.02% lower.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from one or more broker-dealers. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Financial Accounting Standards Board (FASB) Topic 820, Fair Value Measurement. The amendments are the result of the work by the FASB and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

When-Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into a purchase transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery transactions from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

Federal Income Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $51,590,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($3,395,000) and December 31, 2017 ($48,195,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2011 to December 31, 2011, the Fund elects to defer qualified late year losses of approximately $279,000 of net long-term realized capital losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31,2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 2,535,633
Capital loss carryforwards	$ (51,590,000)
Unrealized appreciation (depreciation) on investments	$ 3,108,769

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 2,313,385	$ 5,749,285

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund.

B. Derivative Instruments

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. For the year ended December 31, 2011, the Fund bought credit default swap contracts to gain exposure to an underlying reference entity's credit quality characteristics without directly investing in that reference entity, or to economically hedge the risk of default on Fund securities. As a seller in the credit default swap contract, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Fund 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 Fund with the occurrence of a credit event. When the Fund 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 Fund.

The value of the credit default swap is adjusted daily and the change in value, if any, is recorded daily as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Under the terms of the credit default swap contracts, the Fund 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 in 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 in the Statement of Operations.

There were no open credit default swap contracts as of December 31, 2011. For the year ended December 31, 2011, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to approximately $4,200,000.

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $4,403,000 and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $8,923,000 to $23,345,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Futures Contracts**
Interest Rate Contracts (a)	$ 6,542

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

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

Liability Derivative	**Futures Contracts**
Interest Rate Contracts (a)	$ (131,722)

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Futures Contracts**	**Swap Contracts**	**Total**
Interest Rate Contracts (a)	$ (694,123)	$ —	$ (694,123)
Credit Contracts (a)	—	(63,165)	(63,165)
	$ (694,123)	**$ (63,165)**	**$ (757,288)**

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

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

Change in Net Unrealized Appreciation (Depreciation)	**Futures Contracts**
Interest Rate Contracts (a)	$ (742,571)

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

(a) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $196,874,280 and $205,601,432, respectively. Purchases and sales of U.S. Treasury obligations aggregated $36,232,816 and $37,851,127, respectively.

D. Related Parties

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

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

First $250 million	.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%

For the period from January 1, 2011 through September 30, 2011, the Advisor had contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.71%.

For the period from October 1, 2011 through September 30, 2012, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.70%.

Accordingly, for the year ended December 31, 2011, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $28,155, and the amount charged aggregated $383,614, which was equivalent to an annual effective rate of 0.47% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $82,354, of which $6,703 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC aggregated $116, all of which was waived.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $11,502, of which $3,075 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Ownership of the Fund

At December 31, 2011, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 44%, 42% and 13%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

G. Fund Merger

On November 18, 2011, the Board of Directors of the Fund approved the merger of the Fund into DWS Variable Series I — DWS Bond VIP. Completion of the merger is expected to occur on or about April 30, 2012.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Core Fixed Income VIP:

We have audited the accompanying statement of assets and liabilities of DWS Core Fixed Income VIP, one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Core Fixed Income VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	Class A
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,039.00
Expenses Paid per $1,000*	$ 3.80

Hypothetical 5% Fund Return	Class A
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,021.48
Expenses Paid per $1,000*	$ 3.77

* Expenses are equal to the Fund'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 365.

Annualized Expense Ratio	Class A
DWS Variable Series II — DWS Core Fixed Income VIP	.74%

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

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

Tax Information

(Unaudited)

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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Core Fixed Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS'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, DWS provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, 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 the one-, three- and five-year periods ended December 31, 2010.

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 DWS 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 a 0.10% fee paid to DWS 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, 2010). 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, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 DWS helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2CFI-2 (R-025827-1 2/12)

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Diversified International Equity VIP

DWS INVESTMENTS
Deutsche Bank Group

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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

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

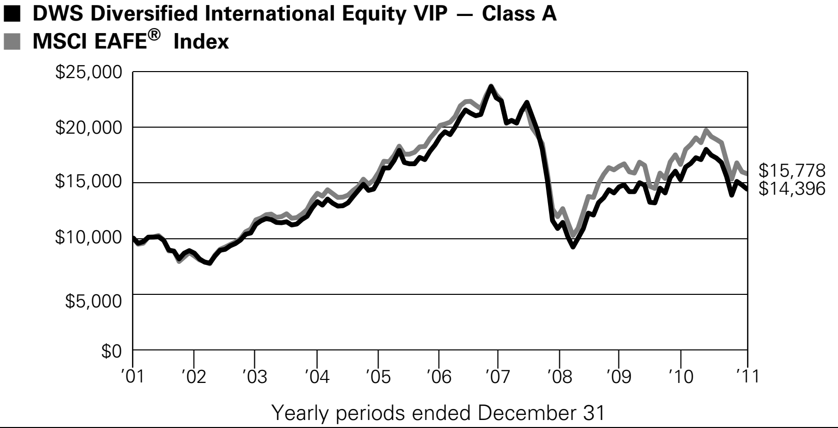
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 is 0.99% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in DWS Diversified International Equity VIP



The Morgan Stanley Capital International (MSCI) Europe, Australasia and the Far East EAFE® Index is an unmanaged, free float-adjusted, market capitalization index that tracks international stock performance in the 21 developed markets of Europe, Australasia and the Far East. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates.

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

Comparative Results

DWS Diversified International Equity VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$8,793	$12,618	$7,538	$14,396
	Average annual total return	–12.07%	8.06%	–5.50%	3.71%
MSCI EAFE Index	Growth of $10,000	$8,786	$12,475	$7,852	$15,778
	Average annual total return	–12.14%	7.65%	–4.72%	4.67%

The growth of $10,000 is cumulative.

Management Summary

The combination of the European debt crisis and the earthquake in Japan took a toll on international equities during 2011, causing the MSCI EAFE® Index to finish with a return of –12.14%.[1] The Class A shares of the Fund returned –12.07% (unadjusted for contract charges), slightly ahead of the benchmark.

Throughout the course of the year, the Fund held a weighting of approximately 9–10% of assets in two exchanged-traded funds (ETFs) linked to the performance of the emerging markets: Vanguard MSCI Emerging Markets Fund and iShares MSCI Emerging Markets Index Fund.[2,3,4] We have held these positions since we began managing the Fund in 2009, and they aided the Fund's performance through the end of 2010. However, emerging markets lagged during the past year due to heightened investor risk aversion and slowing global growth, and the MSCI Emerging Markets Index finished the year well behind the MSCI EAFE Index, with a return of –18.42%. As a result, this position detracted from the Fund's performance in 2011. Nevertheless, we believe this allocation adds meaningful diversification to the portfolio on a longer-term basis.[5]

The Fund's largest sector overweights during the year were in telecommunications and consumer staples, while its most significant underweights were in financials and industrials.[6] This defensive positioning was a positive for performance, as stocks with stable cash flows, low economic sensitivity and high dividend yields generally provided the strongest relative performance.

The Fund's also was helped by its underweight in Japan, which lagged the broader world market by six percentage points due in part to the lingering economic effects of the March earthquake, and by its overweight in Canada, which was relatively insulated from the economic problems of the rest of the world. An overweight in the Netherlands also aided relative performance. On the negative side, the Fund's underweight in the United Kingdom detracted from performance. The Fund held an average weighting that was less than half of the country's weighting in the benchmark, a negative given that the U.K. outperformed the MSCI EAFE Index by nearly 10 percentage points. Overweights in Finland and Greece also detracted from performance.

Robert Wang
Russell Shtern, CFA
Portfolio Managers, QS Investors, LLC
Subadvisor to the Fund

1 The Morgan Stanley Capital International (MSCI) Europe, Australasia and the Far East (EAFE) Index is an unmanaged, free float-adjusted, market-capitalization index that tracks international stock performance in the 21 developed markets of Europe, Australasia and the Far East. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates.

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

2 An exchange-traded fund (ETF) is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

3 The Vanguard MSCI Emerging Markets Fund invests in stocks of companies located in emerging markets around the world, such as Brazil, Russia, China, Korea and Taiwan. The fund seeks to closely track the return of the MSCI Emerging Markets Index over the long term.

4 The iShares MSCI Emerging Markets Index Fund seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in emerging markets, as represented by the MSCI Emerging Markets Index. The Morgan Stanley Capital International (MSCI) Emerging Markets Index is an unmanaged, capitalization-weighted index of companies in a universe of 26 emerging markets. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates.

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

5 Diversification neither assures a profit nor guarantees against a loss.

6 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	89%	87%
Exchange-Traded Funds	10%	9%
Preferred Stocks	1%	1%
Cash Equivalents*	0%	3%
	100%	100%

Sector Diversification (As a % of Common and Preferred Stocks)	**12/31/11**	**12/31/10**
Telecommunication Services	14%	16%
Health Care	13%	9%
Consumer Staples	13%	12%
Financials	11%	10%
Utilities	11%	8%
Consumer Discretionary	9%	8%
Materials	9%	11%
Industrials	8%	11%
Information Technology	7%	6%
Energy	5%	9%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/11**	**12/31/10**
Continental Europe	49%	49%
Japan	13%	21%
Canada	11%	5%
Emerging Markets	10%	10%
United Kingdom	8%	7%
Asia (excluding Japan)	5%	4%
Australia	4%	4%
	100%	100%

* In order to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market, the Fund invests in futures contracts.

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

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 88.6%		
Australia 3.7%		
AGL Energy Ltd.	16,408	240,251
Asciano Ltd.	5,759	26,520
Australia & New Zealand Banking Group Ltd.	2,823	59,159
BHP Billiton Ltd.	4,758	167,951
Brambles Ltd.	13,105	95,816
Coca-Cola Amatil Ltd.	2,294	26,999
Cochlear Ltd.	674	42,792
Commonwealth Bank of Australia	1,574	79,099
Crown Ltd.	9,187	75,926
CSL Ltd.	4,663	152,613
Fairfax Media Ltd.	54,011	39,693
Leighton Holdings Ltd.	1,643	31,929
National Australia Bank Ltd.	2,600	61,984
Newcrest Mining Ltd.	1,231	37,290
Origin Energy Ltd.	6,869	93,349
Qantas Airways Ltd.*	18,444	27,502
QBE Insurance Group Ltd.	2,063	27,313
QR National Ltd.	14,433	50,414
Rio Tinto Ltd.	735	45,492
Santos Ltd.	6,168	77,053
Sonic Healthcare Ltd.	4,124	47,514
SP AusNet	58,973	56,647
TABCORP Holdings Ltd.	15,130	42,202
Tatts Group Ltd.	24,689	61,538
Telstra Corp., Ltd.	71,485	243,321
Toll Holdings Ltd.	7,945	34,229
Transurban Group (Units)	9,615	55,219
Wesfarmers Ltd.	3,054	92,034
Westfield Group (REIT) (Units)	3,912	31,262
Westpac Banking Corp.	2,569	52,437
Woodside Petroleum Ltd.	3,950	123,480
Woolworths Ltd.	2,335	59,894
WorleyParsons Ltd.	1,091	28,583
(Cost $1,792,059)		**2,387,505**
Austria 0.4%		
Erste Group Bank AG	6,158	107,853
Immofinanz AG*	21,500	64,757
Raiffeisen Bank International AG (a)	1,708	44,185
Vienna Insurance Group AG Wiener Versicherung Gruppe	1,323	52,348
(Cost $296,684)		**269,143**
Belgium 1.1%		
Ageas	51,209	79,333
Anheuser-Busch InBev NV	3,696	225,724
Delhaize Group	593	33,250
Groupe Bruxelles Lambert SA	1,693	112,486
KBC Groep NV (a)	3,750	47,086
Solvay SA	1,159	95,074
Umicore SA	2,235	92,020
(Cost $646,694)		**684,973**
Bermuda 0.2%		
Seadrill Ltd. (Cost $31,566)	3,016	**100,642**
Canada 11.5%		
Alimentation Couche-Tard, Inc. "B"	3,600	112,020
Bank of Montreal (a)	1,300	71,307

	Shares	Value ($)
Bank of Nova Scotia (a)	2,500	124,736
Barrick Gold Corp. (a)	1,500	67,951
BCE, Inc. (a)	4,700	195,935
Bell Aliant, Inc. (a)	800	22,451
Bombardier, Inc. "B" (a)	19,900	79,307
Brookfield Asset Management, Inc. "A" (a)	1,700	46,791
CAE, Inc. (a)	3,800	36,890
Canadian Imperial Bank of Commerce (a)	1,000	72,432
Canadian National Railway Co. (a)	6,400	503,519
Canadian Natural Resources Ltd. (a)	1,800	67,406
Canadian Pacific Railway Ltd. (a)	2,600	176,124
Canadian Tire Corp., Ltd. "A"	1,700	109,968
Canadian Utilities Ltd. "A"	4,600	277,874
CGI Group, Inc. "A"*	16,400	309,085
Empire Co., Ltd. "A"	900	52,220
EnCana Corp. (a)	1,500	27,814
Finning International, Inc.	2,600	56,683
Fortis, Inc. (a)	10,000	327,558
George Weston Ltd.	900	60,153
Gildan Activewear, Inc. (a)	2,500	47,018
Goldcorp, Inc. (a)	1,200	53,254
Imperial Oil Ltd. (a)	1,000	44,555
Kinross Gold Corp. (a)	2,300	26,257
Loblaw Companies Ltd. (a)	2,100	79,321
Magna International, Inc. "A" (a)	4,506	150,384
Manulife Financial Corp. (a)	4,700	50,056
Metro, Inc. "A" (a)	2,200	116,613
National Bank of Canada (a)	600	42,487
Open Text Corp.*	3,900	199,948
Potash Corp. of Saskatchewan, Inc. (a)	1,300	53,746
Research In Motion Ltd.*	30,300	440,186
Ritchie Bros. Auctioneers, Inc. (a)	1,600	35,180
Rogers Communications, Inc. "B" (a)	9,100	350,601
Royal Bank of Canada (a)	3,300	168,377
Saputo, Inc. (a)	3,800	145,584
Shaw Communications, Inc. "B" (a)	7,800	155,043
Shoppers Drug Mart Corp. (a)	4,800	193,838
SNC-Lavalin Group, Inc.	2,200	110,308
Sun Life Financial, Inc. (a)	2,000	37,104
Suncor Energy, Inc.	2,420	69,791
Teck Resources Ltd. "B"	1,200	42,299
Telus Corp.	1,600	90,527
Telus Corp. (Non-Voting Shares) (a)	3,300	176,993
Thomson Reuters Corp. (a) (b)	6,100	163,046
Thomson Reuters Corp. (b)	1,158	30,884
Tim Hortons, Inc.	3,600	174,426
Toronto-Dominion Bank (a)	2,100	157,260
TransAlta Corp. (a)	11,900	245,534
Valeant Pharmaceuticals International, Inc.*	18,600	870,160
Viterra, Inc. (a)	10,100	106,478
(Cost $7,423,562)		**7,425,482**
Denmark 2.5%		
A P Moller-Maersk AS "A"	7	43,523
A P Moller-Maersk AS "B"	15	98,703
Carlsberg AS "B"	5,367	379,055
Coloplast AS "B" (a)	299	42,921
Danske Bank AS*	18,603	236,908

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

	Shares	Value ($)
DSV AS	2,622	46,876
Novo Nordisk AS "B"	6,131	705,345
Tryg AS	621	34,419
Vestas Wind Systems AS*	2,251	24,201
William Demant Holding AS*	427	35,451
(Cost $1,536,561)		**1,647,402**
Finland 3.0%		
Fortum Oyj	12,576	267,565
Kone Oyj "B" (a)	1,991	102,989
Metso Corp.	1,709	62,977
Nokia Corp. (a)	52,222	252,352
Pohjola Bank PLC	5,199	50,312
Sampo Oyj "A"	9,439	233,874
Stora Enso Oyj "R"	57,301	341,350
UPM-Kymmene Oyj	52,330	573,558
Wartsila Corp. (a)	2,307	66,386
(Cost $2,199,697)		**1,951,363**
France 7.0%		
Air Liquide SA	1,503	185,750
Alcatel-Lucent*	31,152	48,565
AtoS	697	30,496
AXA SA (a)	3,081	39,706
BNP Paribas SA	2,242	87,770
Bouygues SA	734	23,030
Cap Gemini	1,341	41,712
Carrefour SA	4,540	103,187
Casino Guichard-Perrachon SA	794	66,723
Compagnie de Saint-Gobain	755	28,935
DANONE SA	4,560	286,427
Dassault Systemes SA	830	66,458
Electricite de France	2,181	52,862
Essilor International SA (a)	3,351	236,259
France Telecom SA	28,037	438,772
GDF Suez	13,436	365,421
Iliad SA (a)	426	52,546
L'Oreal SA	1,857	193,795
Lafarge SA	1,230	42,976
LVMH Moet Hennessy Louis Vuitton SA	420	59,173
Neopost SA	388	26,067
Pernod Ricard SA (a)	1,706	157,901
Sanofi	14,584	1,067,126
Schneider Electric SA	894	46,721
Societe Generale	1,457	32,337
Suez Environnement Co.	1,869	21,460
Total SA (a)	6,374	325,335
Unibail-Rodamco SE (REIT)	265	47,428
Vallourec SA	299	19,325
Veolia Environnement	4,218	46,451
Vinci SA (a)	944	41,185
Vivendi	10,249	223,746
(Cost $4,290,594)		**4,505,645**
Germany 5.7%		
Adidas AG	1,331	86,573
Allianz SE (Registered)	1,458	139,342
BASF SE	1,618	112,841
Bayer AG	7,244	463,128
Bayerische Motoren Werke (BMW) AG	2,347	156,909
Beiersdorf AG	2,600	147,453
Commerzbank AG*	10,242	17,249
Continental AG*	632	39,338
Daimler AG (Registered)	6,888	302,357
Deutsche Boerse AG*	688	36,070
Deutsche Post AG (Registered)	3,555	54,657
Deutsche Telekom AG (Registered)	48,743	559,227
E.ON AG	8,895	191,209
Fresenius Medical Care AG & Co. KGaA	1,256	85,340
Fresenius SE & Co. KGaA	632	58,466
GEA Group AG	1,223	34,584
Henkel AG & Co. KGaA	3,480	168,448
Infineon Technologies AG (a)	6,144	46,244
K+S AG (Registered)	447	20,155
Kabel Deutschland Holding AG*	519	26,264
Linde AG	332	49,390
Merck KGaA	430	42,868
Metro AG	3,345	122,081
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	598	73,350
RWE AG	2,429	85,094
SAP AG	6,095	322,263
Siemens AG (Registered)	1,513	144,704
Suedzucker AG	2,222	70,732
ThyssenKrupp AG	776	17,763
Volkswagen AG	228	30,566
(Cost $3,547,490)		**3,704,665**
Greece 0.3%		
National Bank of Greece SA* (Cost $521,527)	108,240	**226,815**
Hong Kong 2.5%		
AIA Group Ltd.	23,000	71,687
Cathay Pacific Airways Ltd.	15,000	25,764
Cheung Kong (Holdings) Ltd.	5,000	59,340
Cheung Kong Infrastructure Holdings Ltd.	7,000	40,700
CLP Holdings Ltd.	23,000	195,703
Galaxy Entertainment Group Ltd.*	12,000	21,731
Genting Singapore PLC* (a)	156,000	181,032
Hang Lung Properties Ltd.	20,000	56,862
Hang Seng Bank Ltd.	2,200	26,072
Hong Kong & China Gas Co., Ltd.	41,649	96,595
Hong Kong Exchanges & Clearing Ltd. (a)	3,500	56,317
Hutchison Whampoa Ltd.	31,000	259,368
Li & Fung Ltd. (a)	42,000	77,213
Link (REIT)	13,500	49,742
MTR Corp., Ltd.	17,500	56,638
Noble Group Ltd.	29,363	25,475
NWS Holdings Ltd. (a)	30,000	44,165
Power Assets Holdings Ltd.	14,000	103,538
Shangri-La Asia Ltd. (a)	18,000	31,032
SJM Holdings Ltd.	12,000	19,339
Sun Hung Kai Properties Ltd. (a)	5,000	62,408
Yue Yuen Industrial (Holdings) Ltd. (a)	10,500	33,172
(Cost $1,291,264)		**1,593,893**
Ireland 1.7%		
CRH PLC (b)	31,325	618,656
CRH PLC (b)	20,956	416,040
Experian PLC	5,338	72,484
(Cost $1,042,219)		**1,107,180**

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

	Shares	Value ($)
Italy 3.3%		
A2A SpA	20,926	19,606
Assicurazioni Generali SpA (a)	5,770	86,441
Atlantia SpA	5,777	92,158
Banca Monte dei Paschi di Siena SpA	55,503	17,985
Banco Popolare Societa Cooperativa (a)	19,374	24,934
Enel Green Power SpA	16,188	33,703
Enel SpA	79,900	323,786
Eni SpA	11,687	241,401
Fiat Industrial SpA*	14,315	121,964
Fiat SpA (a)	20,225	92,489
Finmeccanica SpA	7,959	29,348
Intesa Sanpaolo	42,493	70,579
Luxottica Group SpA	2,649	74,129
Mediaset SpA	10,870	29,988
Pirelli & C. SpA	4,802	40,268
Prysmian SpA	3,602	44,514
Saipem SpA	1,672	70,670
Snam Rete Gas SpA	16,191	71,165
Telecom Italia SpA (a)	337,823	360,714
Telecom Italia SpA (RSP)	223,543	199,476
Terna — Rete Elettrica Nationale SpA	14,939	50,204
UBI Banca — Unione di Banche Italiane ScpA	3,919	15,968
UniCredit SpA (a)	6,984	57,580
(Cost $2,567,470)		**2,169,070**
Japan 12.6%		
AEON Co., Ltd. (a)	6,800	93,327
Ajinomoto Co., Inc. (a)	7,000	83,977
Alfresa Holdings Corp.	1,000	42,115
Asahi Breweries Ltd. (a)	4,100	90,087
Asahi Kasei Corp.	7,000	42,153
Astellas Pharma, Inc.	3,800	154,401
Bridgestone Corp.	2,100	47,535
Canon, Inc.	1,800	79,648
Central Japan Railway Co.	3	25,320
Chubu Electric Power Co., Inc.	10,600	197,918
Chugai Pharmaceutical Co., Ltd.	2,900	47,774
Chugoku Electric Power Co., Inc.	4,300	75,387
Dai-ichi Life Insurance Co., Ltd.	35	34,356
Daiichi Sankyo Co., Ltd.	5,800	114,883
Daito Trust Construction Co., Ltd.	600	51,480
Daiwa House Industry Co., Ltd.	2,000	23,831
Daiwa Securities Group, Inc. (a)	10,000	31,124
Denso Corp.	1,100	30,332
East Japan Railway Co.	226	14,381
Eisai Co., Ltd. (a)	2,100	86,922
Electric Power Development Co., Ltd.	1,600	42,526
FamilyMart Co., Ltd.	1,000	40,389
FANUC Corp.	300	45,855
Fast Retailing Co., Ltd.	200	36,346
FUJIFILM Holdings Corp.	1,800	42,573
Hisamitsu Pharmaceutical Co., Inc. (a)	900	38,099
Hitachi Ltd. (a)	9,000	47,174
Hokkaido Electric Power Co., Inc.	2,100	29,910
Hokuriku Electric Power Co.	2,800	52,295
Honda Motor Co., Ltd.	4,600	140,080
HOYA Corp.	1,400	30,115
Idemitsu Kosan Co., Ltd.	400	41,193
INPEX Corp. (a)	21	132,060
Japan Real Estate Investment Corp. (REIT)	6	46,758
Japan Tobacco, Inc.	44	206,815
JFE Holdings, Inc.	2,300	41,809
JX Holdings, Inc.	22,920	138,266
Kansai Electric Power Co., Inc.	11,900	182,595
Kao Corp.	5,700	155,619
KDDI Corp.	35	225,310
Keyence Corp.	100	24,090
Kikkoman Corp.	3,000	34,427
Kirin Holdings Co., Ltd.	8,000	97,196
Komatsu Ltd.	1,300	30,317
Kyocera Corp.	500	40,150
Kyowa Hakko Kirin Co., Ltd.	5,000	61,150
Kyushu Electric Power Co., Inc.	5,600	80,194
Lawson, Inc. (a)	900	56,165
MEIJI Holdings Co., Ltd.	500	20,740
Miraca Holdings, Inc.	300	11,952
Mitsubishi Chemical Holdings Corp.	6,500	35,759
Mitsubishi Corp.	2,400	48,396
Mitsubishi Estate Co., Ltd.	5,000	74,600
Mitsubishi Tanabe Pharma Corp.	3,000	47,443
Mitsubishi UFJ Financial Group, Inc.	48,300	204,900
Mitsui & Co., Ltd.	3,200	49,674
Mitsui Fudosan Co., Ltd.	3,000	43,661
Mitsui O.S.K Lines Ltd.	7,000	27,075
Mizuho Financial Group, Inc.	77,200	104,183
MS&AD Insurance Group Holdings, Inc. (a)	2,400	44,404
Nintendo Co., Ltd.	200	27,571
Nippon Building Fund, Inc. (REIT)	5	40,914
Nippon Meat Packers, Inc.	3,000	37,301
Nippon Steel Corp.	21,000	52,300
Nippon Telegraph & Telephone Corp.	5,409	274,704
Nishi-Nippon City Bank Ltd.	13,000	37,381
Nissan Motor Co., Ltd. (a)	6,000	53,853
Nisshin Seifun Group, Inc.	3,000	36,337
Nissin Foods Holdings Co., Ltd.	700	27,413
NKSJ Holdings, Inc.	1,750	34,284
Nomura Holdings, Inc. (a)	12,000	36,254
Nomura Real Estate Office Fund, Inc. (REIT)	12	61,637
NTT DoCoMo, Inc.	177	325,200
Olympus Corp. (a)	1,900	24,959
Ono Pharmaceutical Co., Ltd.	700	39,271
Oriental Land Co., Ltd.	200	21,123
ORIX Corp.	700	57,704
Osaka Gas Co., Ltd.	30,000	118,361
Otsuka Holdings KK	2,000	56,251
Panasonic Corp. (a)	4,600	39,031
Resona Holdings, Inc. (a)	6,900	30,358
Santen Pharmaceutical Co., Ltd.	1,000	41,203
Seven & I Holdings Co., Ltd.	7,300	203,261
Sharp Corp.	3,000	26,193
Shikoku Electric Power Co., Inc. (a)	2,600	74,478
Shin-Etsu Chemical Co., Ltd.	1,500	73,770
Shionogi & Co., Ltd.	4,200	53,909
Shiseido Co., Ltd. (a)	3,500	64,292
SOFTBANK Corp. (a)	10,300	303,041
Sony Corp.	2,100	37,846
Sumitomo Chemical Co., Ltd.	10,000	36,457
Sumitomo Corp.	4,200	56,756

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

	Shares	Value ($)
Sumitomo Mitsui Financial Group, Inc. (a)	5,200	144,670
Sumitomo Mitsui Trust Holdings, Inc.	13,410	39,316
Sumitomo Realty & Development Co., Ltd.	2,000	34,971
Suzuken Co., Ltd.	1,300	36,013
Sysmex Corp.	400	13,024
T&D Holdings, Inc.	3,600	33,489
Taisho Pharmaceutical Holdings Co., Ltd.*	300	23,121
Takeda Pharmaceutical Co., Ltd.	6,300	276,728
Terumo Corp. (a)	1,400	65,856
Toho Gas Co., Ltd.	9,000	57,295
Tohoku Electric Power Co., Inc.	6,200	59,578
Tokio Marine Holdings, Inc.	2,200	48,664
Tokyo Electric Power Co., Inc.* (a)	24,100	57,256
Tokyo Gas Co., Ltd.	35,000	160,836
TonenGeneral Sekiyu KK	4,000	43,672
Toray Industries, Inc.	6,000	42,908
Toshiba Corp.	8,000	32,669
Toyo Suisan Kaisha Ltd.	1,000	24,221
Toyota Motor Corp.	7,400	246,278
Tsumura & Co.	500	14,738
Unicharm Corp. (a)	900	44,366
Yakult Honsha Co., Ltd. (a)	700	22,041
(Cost $7,650,247)		**8,144,337**
Luxembourg 0.4%		
ArcelorMittal (a)	4,154	75,792
Millicom International Cellular SA (SDR) (a)	1,194	119,560
Tenaris SA	2,802	51,993
(Cost $178,537)		**247,345**
Macau 0.1%		
Sands China Ltd.* (a)	20,800	58,953
Wynn Macau Ltd. (a)	13,600	33,864
(Cost $50,091)		**92,817**
Netherlands 6.8%		
AEGON NV*	10,987	43,763
Akzo Nobel NV	2,534	121,923
ASML Holding NV	25,587	1,072,329
Fugro NV (CVA)	2,947	170,340
Heineken Holding NV	913	37,261
Heineken NV (a)	3,364	155,300
ING Groep NV (CVA)*	27,084	193,007
Koninklijke (Royal) KPN NV	46,610	556,475
Koninklijke Ahold NV (a)	14,948	201,018
Koninklijke DSM NV (a)	1,774	82,200
Koninklijke Philips Electronics NV	6,373	133,550
Randstad Holding NV	918	27,023
Reed Elsevier NV (a)	35,902	417,565
Royal Dutch Shell PLC "A"	3,101	114,001
Royal Dutch Shell PLC "B"	2,331	88,709
SBM Offshore NV	7,768	159,680
TNT Express NV	3,139	23,392
Unilever NV (CVA)	15,412	529,271
Wolters Kluwer NV	15,248	262,532
(Cost $3,805,165)		**4,389,339**
Norway 1.8%		
Aker Solutions ASA	1,915	20,031
DnB NOR ASA (a)	16,840	164,546
Norsk Hydro ASA	22,115	102,394
Statoil ASA (a)	8,941	228,998
Telenor ASA	28,434	465,207
Yara International ASA	5,057	202,568
(Cost $738,638)		**1,183,744**
Portugal 0.7%		
EDP — Energias de Portugal SA (Cost $536,855)	152,492	**471,823**
Singapore 2.4%		
CapitaLand Ltd. (a)	20,000	33,983
DBS Group Holdings Ltd.	10,000	88,584
Fraser & Neave Ltd.	15,000	71,609
Golden Agri-Resources Ltd.	173,000	95,098
Hutchison Port Holdings Trust (Units)	63,000	39,008
Jardine Cycle & Carriage Ltd.	3,000	111,404
Keppel Corp., Ltd. (a)	15,400	110,089
Olam International Ltd. (a)	35,000	57,252
Oversea-Chinese Banking Corp., Ltd.	14,000	84,299
SembCorp Industries Ltd.	19,000	59,122
SembCorp Marine Ltd.	8,000	23,464
Singapore Airlines Ltd.	6,000	46,905
Singapore Exchange Ltd. (a)	7,000	33,009
Singapore Press Holdings Ltd.	37,000	105,160
Singapore Technologies Engineering Ltd.	15,000	31,064
Singapore Telecommunications Ltd.	145,000	345,600
United Overseas Bank Ltd.	7,000	82,206
Wilmar International Ltd.	39,000	150,233
(Cost $1,214,826)		**1,568,089**
Spain 3.4%		
Abertis Infraestructuras SA	4,785	76,137
Acciona SA	263	22,682
ACS, Actividades de Construccion y Servicios SA (a)	2,437	72,139
Banco Bilbao Vizcaya Argentaria SA (a)	11,147	95,805
Banco Santander SA	18,804	142,071
EDP Renovaveis SA*	17,487	106,759
Enagas SA	2,258	41,626
Ferrovial SA (a)	7,222	87,074
Gas Natural SDG SA	3,816	65,305
Iberdrola SA (a)	42,668	266,079
Industria de Diseno Textil SA (a)	2,942	240,370
Red Electrica Corporacion SA (a)	1,144	48,813
Repsol YPF SA (a)	11,077	338,406
Telefonica SA	31,343	540,910
Zardoya Otis SA (a)	3,050	41,708
(Cost $2,063,361)		**2,185,884**
Sweden 2.6%		
Assa Abloy AB "B"	1,207	30,227
Atlas Copco AB "A"	2,084	44,613
Boliden AB (a)	5,037	73,045
Electrolux AB "B"	1,929	30,604
Hennes & Mauritz AB "B" (a)	5,804	186,231
Hexagon AB "B"	2,788	41,424
Holmen AB "B" (a)	1,214	34,842
Husqvarna AB "B"	4,852	22,296
Modern Times Group "B"	537	25,565
Nordea Bank AB	10,270	79,284
Sandvik AB (a)	3,095	37,762

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

	Shares	Value ($)
Skandinaviska Enskilda Banken AB "A"	6,486	37,694
Skanska AB "B"	1,724	28,432
SKF AB "B"	1,279	27,004
SSAB AB "A"	2,870	25,122
Svenska Cellulosa AB "B" (a)	9,672	143,179
Svenska Handelsbanken AB "A" (a)	2,807	73,718
Swedbank AB "A"	2,295	29,668
Tele2 AB "B" (a)	4,023	78,194
Telefonaktiebolaget LM Ericsson "B" (a)	37,773	383,693
TeliaSonera AB (a)	28,839	195,377
Volvo AB "B" (a)	3,948	42,921
(Cost $1,342,672)		**1,670,895**
Switzerland 7.2%		
ABB Ltd. (Registered)* (a)	7,290	137,147
Adecco SA (Registered)* (a)	824	34,342
Compagnie Financiere Richemont SA "A"	3,148	158,510
Credit Suisse Group AG (Registered)* (a)	1,994	46,787
Geberit AG (Registered)* (a)	246	47,358
Givaudan SA (Registered)*	61	57,897
Holcim Ltd. (Registered)*	1,480	79,069
Lonza Group AG (Registered)*	466	27,422
Nestle SA (Registered)	19,423	1,115,129
Novartis AG (Registered)	10,620	606,682
Roche Holding AG (Genusschein)	3,224	545,235
Sika AG (a)	19	35,699
Sonova Holding AG (Registered)*	289	30,223
STMicroelectronics NV	5,378	31,763
Swatch Group AG (Bearer)	214	79,733
Swiss Re Ltd.*	723	36,821
Swisscom AG (Registered) (a)	3,194	1,207,578
Syngenta AG (Registered)*	467	137,446
UBS AG (Registered)*	6,394	75,950
Wolseley PLC	1,218	40,145
Xstrata PLC	2,858	43,038
Zurich Financial Services AG*	398	89,875
(Cost $3,137,227)		**4,663,849**
United Kingdom 7.7%		
Anglo American PLC	1,947	71,758
ARM Holdings PLC	28,261	260,537
AstraZeneca PLC	8,743	404,974
BAE Systems PLC	10,946	48,263
Barclays PLC	8,467	22,937
BG Group PLC	3,267	69,676
BHP Billiton PLC	3,282	95,428
BP PLC	14,756	105,229
British American Tobacco PLC	3,987	189,046
British Sky Broadcasting Group PLC	3,065	34,829
BT Group PLC	44,070	130,142
Burberry Group PLC	1,367	25,016
Capita Group PLC	2,676	26,097
Centrica PLC	43,037	193,154
Compass Group PLC	7,663	72,557
Diageo PLC	4,423	96,514
GlaxoSmithKline PLC	30,142	687,317
HSBC Holdings PLC	12,924	98,109
Imperial Tobacco Group PLC	1,820	68,796
Inmarsat PLC	3,673	22,994
International Consolidated Airlines Group SA*	9,009	20,199
International Power PLC	9,966	52,138
Kingfisher PLC	9,477	36,844
Lloyds Banking Group PLC*	35,330	14,111
Marks & Spencer Group PLC	6,157	29,703
National Grid PLC	28,023	271,883
Next PLC	876	37,208
Pearson PLC	2,885	54,029
Reckitt Benckiser Group PLC	1,170	57,656
Reed Elsevier PLC	4,792	38,643
Rio Tinto PLC	2,033	98,386
Rolls-Royce Holdings PLC*	6,738	77,827
SABMiller PLC	1,731	60,685
Scottish & Southern Energy PLC	7,747	155,197
Severn Trent PLC	2,133	49,452
Shire PLC	4,174	144,874
Smith & Nephew PLC	6,163	59,719
Smiths Group PLC	1,710	24,188
Standard Chartered PLC	1,687	36,730
Subsea 7 SA*	1,418	26,178
Tesco PLC	15,136	94,752
The Sage Group PLC	23,174	105,750
Unilever PLC	1,529	51,323
United Utilities Group PLC	6,323	59,474
Vodafone Group PLC	193,551	537,367
William Morrison Supermarkets PLC	8,072	40,794
WPP PLC	4,824	50,378
(Cost $3,679,402)		**5,008,861**
Total Common Stocks (Cost $51,584,408)		**57,400,761**

Preferred Stocks 0.8%

Germany

	Shares	Value ($)
Bayerische Motoren Werke (BMW) AG	634	29,990
Henkel AG & Co. KGaA (a)	4,546	262,344
Porsche Automobil Holding SE	1,116	59,723
Volkswagen AG	1,019	152,380
Total Preferred Stocks (Cost $379,528)		**504,437**

Exchange-Traded Funds 9.5%

Emerging Markets

	Shares	Value ($)
iShares MSCI Emerging Markets Index Fund (a)	81,700	3,099,698
Vanguard MSCI Emerging Markets Fund	79,900	3,052,979
Total Exchange-Traded Funds (Cost $5,299,864)		**6,152,677**

Securities Lending Collateral 26.3%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.18% (c) (d) (Cost $17,060,251)	17,060,251	**17,060,251**

Cash Equivalents 0.5%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (c) (Cost $337,330)	337,330	**337,330**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $74,661,381)†	125.7	**81,455,456**
Other Assets and Liabilities, Net	(25.7)	**(16,649,684)**
Net Assets	100.0	**64,805,772**

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

* Non-income producing security.

† The cost for federal income tax purposes was $74,989,420. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $6,466,036. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $11,645,278 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,179,242.

(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, 2011 amounted to $15,967,462, which is 24.6% of net assets.

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

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

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

CVA: Certificaten Van Aandelen

MSCI: Morgan Stanley Capital International

REIT: Real Estate Investment Trust

RSP: Risparmio (Convertible Savings Shares)

SDR: Swedish Depositary Receipt

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
DJ Euro Stoxx 50 Index	EUR	3/16/2012	18	537,683	19,802
FTSE 100 Index	GBP	3/16/2012	1	85,974	2,361
Nikkei 225 Index	USD	3/8/2012	3	126,225	(3,900)
Total net unrealized appreciation					**18,263**

Currency Abbreviations			
EUR	Euro	USD	United States Dollar
GBP	British Pound		

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common and Preferred Stocks (e)				
Australia	$ —	$ 2,387,505	$ —	$ 2,387,505
Austria	—	269,143	—	269,143
Belgium	—	684,973	—	684,973
Bermuda	—	100,642	—	100,642
Canada	7,394,598	30,884	—	7,425,482
Denmark	—	1,647,402	—	1,647,402
Finland	—	1,951,363	—	1,951,363
France	—	4,505,645	—	4,505,645
Germany	—	4,209,102	—	4,209,102
Greece	—	226,815	—	226,815
Hong Kong	—	1,593,893	—	1,593,893
Ireland	—	1,107,180	—	1,107,180
Italy	—	2,169,070	—	2,169,070
Japan	—	8,144,337	—	8,144,337
Luxembourg	—	247,345	—	247,345
Macau	—	92,817	—	92,817
Netherlands	—	4,389,339	—	4,389,339
Norway	—	1,183,744	—	1,183,744
Portugal	—	471,823	—	471,823
Singapore	—	1,568,089	—	1,568,089
Spain	—	2,185,884	—	2,185,884
Sweden	—	1,670,895	—	1,670,895
Switzerland	—	4,663,849	—	4,663,849
United Kingdom	—	5,008,861	—	5,008,861
Exchange-Traded Funds	6,152,677	—	—	6,152,677
Short-Term Investments (e)	17,397,581	—	—	17,397,581
Derivatives (f)	22,163	—	—	22,163
Total	**$ 30,967,019**	**$ 50,510,600**	**$ —**	**$ 81,477,619**
Liabilities				
Derivatives (f)	$ (3,900)	$ —	$ —	$ (3,900)
Total	**$ (3,900)**	**$ —**	**$ —**	**$ (3,900)**

(e) See Investment Portfolio for additional detailed categorizations.

(f) Derivatives include unrealized appreciation (depreciation) on open futures contracts.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $57,263,800) — including $15,967,462 of securities loaned	$	64,057,875
Investment in Daily Assets Fund Institutional (cost $17,060,251)*		17,060,251
Investment in Central Cash Management Fund (cost $337,330)		337,330
Total investments in securities, at value (cost $74,661,381)		81,455,456
Foreign currency, at value (cost $147,418)		147,706
Deposits with broker for futures contracts		234,873
Receivable for investments sold		722
Receivable for Fund shares sold		28,355
Dividends receivable		78,477
Interest receivable		12,925
Receivable for variation margin on futures contracts		18,263
Foreign taxes recoverable		28,808
Other assets		1,272
Total assets		82,006,857

Liabilities		
Payable upon return of securities loaned		17,060,251
Payable for Fund shares redeemed		8,498
Accrued management fee		36,043
Other accrued expenses and payables		96,293
Total liabilities		17,201,085
Net assets, at value	**$**	**64,805,772**

Net Assets Consist of		
Undistributed net investment income		1,799,337
Net unrealized appreciation (depreciation) on:		
Investments		6,794,075
Futures		18,263
Foreign currency		(886)
Accumulated net realized gain (loss)		(65,012,848)
Paid-in capital		121,207,831
Net assets, at value	**$**	**64,805,772**
Class A		
Net Asset Value, offering and redemption price per share ($64,805,772 ÷ 9,288,789 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.98**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $261,102)	$	2,512,719
Interest		1,836
Income distributions — Central Cash Management Fund		1,921
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		127,607
Total income		2,644,083
Expenses:		
Management fee		495,104
Administration fee		76,170
Services to shareholders		1,366
Custodian fee		71,490
Legal fees		8,802
Audit and tax fees		63,857
Reports to shareholders		31,220
Trustees' fees and expenses		4,484
Other		30,317
Total expenses		782,810
Net investment income (loss)		**1,861,273**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		4,718,100
Futures		(74,648)
Foreign currency		22,372
		4,665,824
Change in net unrealized appreciation (depreciation) on:		
Investments		(15,431,651)
Futures		57,290
Foreign currency		(3,268)
		(15,377,629)
Net gain (loss)		**(10,711,805)**
Net increase (decrease) in net assets resulting from operations	**$**	**(8,850,532)**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2011	2010
Operations:		
Net investment income (loss)	$ 1,861,273	$ 1,519,774
Net realized gain (loss)	4,665,824	3,056,365
Change in net unrealized appreciation (depreciation)	(15,377,629)	3,397,247
Net increase (decrease) in net assets resulting from operations	(8,850,532)	7,973,386
Distributions to shareholders from:		
Net investment income:		
Class A	(1,512,225)	(1,843,687)
Total distributions	(1,512,225)	(1,843,687)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,120,530	3,841,591
Reinvestment of distributions	1,512,225	1,843,687
Payments for shares redeemed	(14,636,659)	(14,779,706)
Net increase (decrease) in net assets from Class A share transactions	(8,003,904)	(9,094,428)
Increase (decrease) in net assets	(18,366,661)	(2,964,729)
Net assets at beginning of period	83,172,433	86,137,162
Net assets at end of period (including undistributed net investment income of $1,799,337 and $1,336,930, respectively)	**$ 64,805,772**	**$ 83,172,433**

Other Information		
Class A		
Shares outstanding at beginning of period	10,297,508	11,562,525
Shares sold	689,406	508,055
Shares issued to shareholders in reinvestment of distributions	175,432	252,215
Shares redeemed	(1,873,557)	(2,025,287)
Net increase (decrease) in Class A shares	(1,008,719)	(1,265,017)
Shares outstanding at end of period	**9,288,789**	**10,297,508**

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

Financial Highlights

Class A	2011	2010	2009	2008	2007
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$ 8.08**	**$ 7.45**	**$ 6.22**	**$16.76**	**$16.31**
Income (loss) from investment operations:					
Net investment income[a]	.19	.14	.12	.33[c]	.25
Net realized and unrealized gain (loss)	(1.14)	.66	1.51	(6.67)	2.24
Total from investment operations	(.95)	.80	1.63	(6.34)	2.49
Less distributions from:					
Net investment income	(.15)	(.17)	(.40)	(.13)	(.46)
Net realized gains	—	—	—	(4.07)	(1.58)
Total distributions	(.15)	(.17)	(.40)	(4.20)	(2.04)
Net asset value, end of period	**$ 6.98**	**$ 8.08**	**$ 7.45**	**$ 6.22**	**$16.76**
Total Return (%)	(12.07)	10.93	29.36	(48.81)[b,d]	16.71
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	65	83	86	91	236
Ratio of expenses before expense reductions (%)	1.03	.99	.94	1.02	.93
Ratio of expenses after expense reductions (%)	1.03	.99	.94	1.01	.93
Ratio of net investment income (%)	2.44	1.90	1.89	3.04[c]	1.53
Portfolio turnover rate (%)	26	14	139	132	117

a Based on average shares outstanding during the period.

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

c 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.

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 0.14% lower.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities and exchange-traded funds ("ETFs") are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. Securities or ETFs for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. For certain international equity securities, in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to its shareholders.

Additionally, based on the Fund's understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which it invests, the Fund will provide for foreign taxes, and where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $64,396,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($25,232,000) and December 31, 2017 ($39,164,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2011 to December 31, 2011, the Fund elects to defer qualified late year losses of approximately $276,000 of net realized long-term capital losses and $61,000 of net realized short-term capital losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 1,845,786
Capital loss carryforwards	$ (64,396,000)
Unrealized appreciation (depreciation) on investments	$ 6,466,036

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 1,512,225	$ 1,843,687

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Derivative Instruments

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund used futures contracts as a 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.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $750,000 to $2,905,000.

The following table summarizes the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	Futures Contracts
Equity Contracts (a)	$ 18,263

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Futures Contracts
Equity Contracts (a)	$ (74,648)

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

Change in Net Unrealized Appreciation (Depreciation)	Futures Contracts
Equity Contracts (a)	$ 57,290

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

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments) aggregated $19,780,170 and $25,306,319, respectively.

D. Related Parties

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

QS Investors, LLC ("QS Investors") serves as subadvisor with respect to the investment and reinvestment of assets in the Fund, and is paid by the Advisor for its services.

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

First $1.5 billion	.650%
Next $1.75 billion	.635%
Next $1.75 billion	.620%
Over $5 billion	.605%

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.65% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $76,170, of which $5,545 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC aggregated $112, of which $28 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $11,952, of which $3,315 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls or delayed settlements, and may have prices that are more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

F. Ownership of the Fund

At December 31, 2011, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 45%, 29% and 25%.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Diversified International Equity VIP:

We have audited the accompanying statement of assets and liabilities of DWS Diversified International Equity VIP (the "Fund"), one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Diversified International Equity VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses

(Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	Class A
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$ 837.90
Expenses Paid per $1,000*	$ 4.91

Hypothetical 5% Fund Return	Class A
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,019.86
Expenses Paid per $1,000*	$ 5.40

* Expenses are equal to the Fund'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 365.

Annualized Expense Ratio	Class A
DWS Variable Series II — DWS Diversified International Equity VIP	1.06%

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

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

Tax Information

(Unaudited)

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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Diversified International Equity VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DWS and QS Investors, LLC ("QS Investors") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS's and QS Investors' 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, DWS and QS Investors provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. The Board also requested and received information regarding DWS's oversight of Fund sub-advisors, including QS Investors. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 1st 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 outperformed its benchmark in the one-year period and underperformed its benchmark in the three- and five-year periods ended December 31, 2010.

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 DWS and QS Investors 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 a 0.10% fee paid to DWS 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, 2010). With respect to the sub-advisory fee paid to QS Investors, the Board noted that the fee is paid by DWS 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 equal to than the median (2nd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS and QS Investors.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available. The Board did not consider the profitability of QS Investors with respect to the Fund. The Board noted that DWS pays QS Investors' fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DWS.

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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and QS Investors and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and QS Investors and their affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS and QS Investors 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 DWS and QS Investors related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DWS to the oversight of the investment sub-advisor's compliance program and compliance with the applicable fund policies and procedures.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2DIE-2 (R-025828-1 2/12)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Dreman Small Mid Cap Value VIP

DWS INVESTMENTS
Deutsche Bank Group

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

Any Fund that focuses in a particular segment of the market will generally be more volatile than a Fund that invests more broadly. Stocks of small and medium-sized companies involve greater risk than securities of larger, more-established companies. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., 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

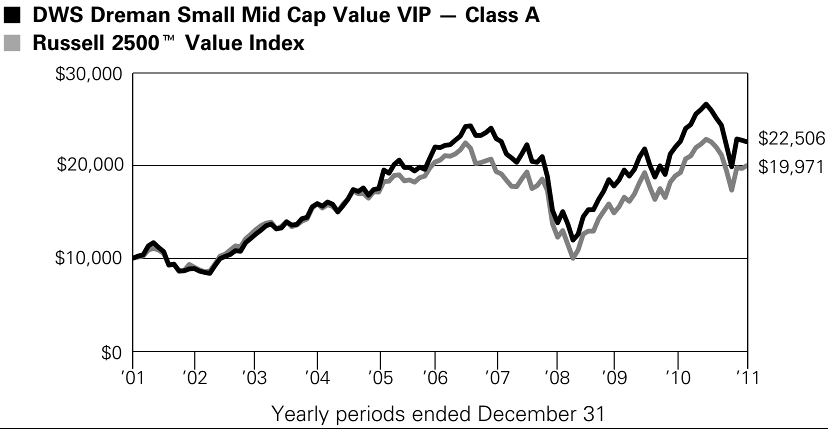
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 0.87% and 1.22% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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 lower price-to-book ratios and lower forecasted growth values.

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

Comparative Results

DWS Dreman Small Mid Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,392	$14,992	$10,287	$22,506
	Average annual total return	–6.08%	14.45%	0.57%	8.45%
Russell 2500 Value Index	Growth of $10,000	$9,664	$15,401	$9,713	$19,971
	Average annual total return	–3.36%	15.48%	–0.58%	7.16%

DWS Dreman Small Mid Cap Value VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$9,367	$14,854	$10,115	$20,676
	Average annual total return	–6.33%	14.10%	0.23%	7.95%
Russell 2500 Value Index	Growth of $10,000	$9,664	$15,401	$9,713	$19,071
	Average annual total return	–3.36%	15.48%	–0.58%	7.03%

The growth of $10,000 is cumulative.

* The Fund commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.

Management Summary

December 31, 2011 (Unaudited)

The Class A shares DWS Dreman Small Mid Cap Value VIP returned –6.08% on the year (unadjusted for contract charges), but underperformed the –3.36% return of its benchmark, the Russell 2500® Value Index.[1] However, our value-focused approach has enabled the Fund to outpace the benchmark in the 5- and 10-year periods ended December 31, 2011.

Our stock picks delivered the best performance in the consumer discretionary, consumer staples and industrials sectors, while our holdings in energy, financials and materials lagged.[2,3] The largest contributors to performance were Healthspring, Inc., which was bid for at a premium in October; Aaron's, Inc.[*]; and Brinker International, Inc. Our primary detractors were Amedisys, Inc.[*], which we have since sold; Arch Coal, Inc.; and Cal Dive International, Inc.[*]

Although the Fund did not perform as well in 2011 as it has historically, we are very pleased with our current portfolio as we move into 2012. We used the volatility of the third quarter to take advantage of opportunities among fundamentally sound but extremely undervalued stocks in some of the market's worst performing sectors, and we continued this process throughout the fourth quarter. Specifically, we focused on stocks that were cheap relative to both their industry peers and their own histories. This process led us to increase the Fund's positions in sectors where it had been underweight for quite some time, including banks and industrial stocks, and to make more modest increases in materials and technology.[4] We believe the greater level of economic sensitivity afforded by this positioning will enable the Fund to benefit if the economy's performance exceeds expectations in the year ahead.

As is typically the case, our portfolio stacks up well relative to the benchmark. As of December 31, 2011, the overall price-to-earnings (P/E) ratio of the Fund's holdings was 10.9 times 2012 earnings estimates, compared to a P/E ratio of 13.7 for the benchmark.[5] Our stocks also featured higher returns on equity (12.8% vs. 8.3%) than the stocks in the benchmark. While this very favorable profile did not translate into market-beating returns in 2011, we believe the pent-up value in the Fund can provide a positive foundation for longer-term performance.

The Fund's subadvisor is Dreman Value Management, L.L.C., a renowned investment firm with a 35-year history of style-pure value investing.

Mark Roach

Managing Director of Dreman Value Management, L.L.C. and Lead Portfolio Manager of the Fund. Joined the Fund in 2006.

David N. Dreman

Chairman of Dreman Value Management, L.L.C. and Portfolio Manager of the Fund. Joined the Fund in 2002.

E. Clifton Hoover, Jr., CFA

Chief Investment Officer and Managing Director of Dreman Value Management, L.L.C. and Portfolio Manager of the Fund.
Joined the Fund in 2006.

Mario Tufano

Associate Portfolio Manager of the Fund. Joined the Fund in 2010.

1 The Russell 2500 Value Index is an unmanaged index of those securities in the Russell 3000® Index with lower price-to-book ratios and lower forecasted growth values.

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

2 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life.

3 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs and household products.

4 "Underweight" means the Fund holds a lower weighting in a given sector or security than the benchmark. "Overweight" means the Fund holds a higher weighting.

5 Price-to-earnings (P/E) ratio compares a company's current share price to its per-share earnings.

* Not held in the portfolio as of December 31, 2011.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/11**	**12/31/10**
Financials	26%	19%
Industrials	17%	13%
Information Technology	16%	14%
Consumer Discretionary	12%	11%
Materials	8%	9%
Health Care	8%	11%
Energy	6%	11%
Utilities	4%	6%
Consumer Staples	3%	6%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2011

	Shares	Value ($)
Common Stocks 99.3%		
Consumer Discretionary 12.0%		
Auto Components 0.9%		
Cooper Tire & Rubber Co.	154,275	**2,161,393**
Hotels Restaurants & Leisure 4.0%		
Brinker International, Inc. (a)	156,300	4,182,588
International Speedway Corp. "A"	113,475	2,876,591
LIFE TIME FITNESS, Inc.* (a)	48,596	2,271,863
		9,331,042
Household Durables 0.9%		
Whirlpool Corp. (a)	42,825	**2,032,046**
Leisure Equipment & Products 1.5%		
Mattel, Inc. (a)	131,425	**3,648,358**
Media 1.4%		
Meredith Corp. (a)	105,125	**3,432,331**
Multiline Retail 1.2%		
Big Lots, Inc.*	77,549	**2,928,250**
Textiles, Apparel & Luxury Goods 2.1%		
Hanesbrands, Inc.* (a)	106,900	2,336,834
The Jones Group, Inc.	239,790	2,529,785
		4,866,619
Consumer Staples 3.1%		
Beverages 1.4%		
Constellation Brands, Inc. "A"* (a)	160,525	**3,318,052**
Household Products 1.7%		
Energizer Holdings, Inc.*	50,975	**3,949,543**
Energy 5.5%		
Energy Equipment & Services 3.8%		
Atwood Oceanics, Inc.* (a)	73,415	2,921,183
Nabors Industries Ltd.*	195,875	3,396,472
Superior Energy Services, Inc.* (a)	93,500	2,659,140
		8,976,795
Oil, Gas & Consumable Fuels 1.7%		
Arch Coal, Inc.	98,550	1,429,961
Ultra Petroleum Corp.* (a)	90,572	2,683,648
		4,113,609
Financials 25.7%		
Capital Markets 1.4%		
Raymond James Financial, Inc. (a)	104,600	**3,238,416**
Commercial Banks 9.2%		
Associated Banc-Corp.	251,475	2,808,976
Bank of Hawaii Corp. (a)	73,675	3,277,801
BOK Financial Corp. (a)	57,900	3,180,447
East West Bancorp., Inc.	190,200	3,756,450
Fulton Financial Corp.	311,000	3,050,910
Webster Financial Corp. (a)	156,550	3,192,054
Zions Bancorp. (a)	149,500	2,433,860
		21,700,498
Insurance 7.6%		
Allied World Assurance Co. Holdings AG	48,950	3,080,424
Argo Group International Holdings Ltd. (a)	104,813	3,035,384
Axis Capital Holdings Ltd. (a)	93,800	2,997,848
Everest Re Group Ltd. (a)	40,225	3,382,520
Hartford Financial Services Group, Inc.	168,575	2,739,344
Unum Group	126,000	2,654,820
		17,890,340
Real Estate Investment Trusts 7.5%		
CBL & Associates Properties, Inc. (REIT) (a)	196,250	3,081,125
CommonWealth REIT (REIT)	126,756	2,109,220
Entertainment Properties Trust (REIT) (a)	71,550	3,127,450
Hospitality Properties Trust (REIT) (a)	146,750	3,372,315
MFA Financial, Inc. (REIT) (a)	411,975	2,768,472
Weingarten Realty Investors (REIT) (a)	149,400	3,259,908
		17,718,490
Health Care 7.8%		
Health Care Equipment & Supplies 1.5%		
Teleflex, Inc.	57,050	**3,496,595**
Health Care Providers & Services 3.9%		
Healthspring, Inc.*	51,700	2,819,718
LifePoint Hospitals, Inc.* (a)	88,825	3,299,849
Owens & Minor, Inc. (a)	114,350	3,177,786
		9,297,353
Life Sciences Tools & Services 1.1%		
Charles River Laboratories International, Inc.*	93,375	**2,551,939**
Pharmaceuticals 1.3%		
Endo Pharmaceuticals Holdings, Inc.*	87,700	**3,028,281**
Industrials 17.2%		
Aerospace & Defense 2.3%		
Alliant Techsystems, Inc. (a)	45,250	2,586,490
Spirit AeroSystems Holdings, Inc. "A"*	137,150	2,849,977
		5,436,467
Commercial Services & Supplies 3.3%		
Pitney Bowes, Inc. (a)	143,600	2,662,344
R.R. Donnelley & Sons Co. (a)	175,000	2,525,250
The Brink's Co.	101,475	2,727,648
		7,915,242
Construction & Engineering 2.0%		
Tutor Perini Corp.*	155,900	1,923,806
URS Corp.*	81,850	2,874,572
		4,798,378
Electrical Equipment 2.8%		
General Cable Corp.* (a)	107,412	2,686,374
Hubbell, Inc. "B"	57,425	3,839,436
		6,525,810
Machinery 4.2%		
Crane Co.	74,500	3,479,895
Oshkosh Corp.* (a)	131,500	2,811,470
SPX Corp.	59,000	3,555,930
		9,847,295
Road & Rail 1.4%		
AMERCO (a)	36,675	**3,242,070**
Trading Companies & Distributors 1.2%		
Textainer Group Holdings Ltd. (a)	99,500	**2,897,440**

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

	Shares	Value ($)
Information Technology 15.9%		
Communications Equipment 1.4%		
Arris Group, Inc.* (a)	292,375	**3,163,497**
Computers & Peripherals 2.1%		
NCR Corp.*	185,925	3,060,325
Synaptics, Inc.* (a)	59,211	1,785,212
		4,845,537
Electronic Equipment, Instruments & Components 2.6%		
Arrow Electronics, Inc.* (a)	79,215	2,963,433
Jabil Circuit, Inc. (a)	165,475	3,253,239
		6,216,672
IT Services 3.6%		
Amdocs Ltd.* (a)	97,825	2,790,947
DST Systems, Inc.	66,125	3,010,010
ManTech International Corp. "A" (a)	85,625	2,674,925
		8,475,882
Semiconductors & Semiconductor Equipment 4.6%		
KLA-Tencor Corp. (a)	66,650	3,215,862
Microsemi Corp.*	156,150	2,615,513
PMC-Sierra, Inc.* (a)	452,650	2,494,102
Teradyne, Inc.* (a)	191,775	2,613,893
		10,939,370
Software 1.6%		
Synopsys, Inc.*	138,575	**3,769,240**
Materials 8.0%		
Chemicals 2.1%		
H.B. Fuller Co.	147,600	3,411,036
Huntsman Corp.	151,318	1,513,180
		4,924,216
Containers & Packaging 2.2%		
Owens-Illinois, Inc.*	108,925	2,110,967
Rock-Tenn Co. "A"	53,675	3,097,047
		5,208,014

	Shares	Value ($)
Metals & Mining 3.7%		
Coeur d'Alene Mines Corp.* (a)	116,350	2,808,689
IAMGOLD Corp.	158,475	2,511,829
Reliance Steel & Aluminum Co. (a)	68,800	3,349,872
		8,670,390
Utilities 4.1%		
Electric Utilities 1.6%		
Portland General Electric Co.	150,350	**3,802,351**
Gas Utilities 1.3%		
AGL Resources, Inc. (a)	72,850	**3,078,641**
Multi-Utilities 1.2%		
Ameren Corp. (a)	88,250	**2,923,723**
Total Common Stocks (Cost $211,807,080)		**234,360,185**
Securities Lending Collateral 44.2%		
Daily Assets Fund Institutional, 0.18% (b) (c) (Cost $104,307,716)	104,307,716	**104,307,716**
Cash Equivalents 0.8%		
Central Cash Management Fund, 0.07% (b) (Cost $1,745,679)	1,745,679	**1,745,679**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $317,860,475)†	144.3	**340,413,580**
Other Assets and Liabilities, Net	(44.3)	**(104,491,461)**
Net Assets	100.0	**235,922,119**

* Non-income producing security.

† The cost for federal income tax purposes was $318,438,563. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $21,975,017. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $44,336,845 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $22,361,828.

(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, 2011 amounted to $101,221,273, which is 42.9% of net assets.

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

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

REIT: Real Estate Investment Trust

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (d)	$ 234,360,185	$ —	$ —	$ 234,360,185
Short-Term Investments (d)	106,053,395	—	—	106,053,395
Total	**$ 340,413,580**	**$ —**	**$ —**	**$ 340,413,580**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(d) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $211,807,080) — including $101,221,273 of securities loaned	$	234,360,185
Investment in Daily Assets Fund Institutional (cost $104,307,716)*		104,307,716
Investment in Central Cash Management Fund (cost $1,745,679)		1,745,679
Total investments in securities, at value (cost $317,860,475)		340,413,580
Receivable for Fund shares sold		33,297
Dividends receivable		416,017
Interest receivable		13,781
Foreign taxes recoverable		3,671
Other assets		3,849
Total assets		340,884,195
Liabilities		
Payable upon return of securities loaned		104,307,716
Payable for Fund shares redeemed		399,291
Accrued management fee		129,775
Accrued expenses and payables		125,294
Total liabilities		104,962,076
Net assets, at value	**$**	**235,922,119**
Net Assets Consist of:		
Undistributed net investment income		2,724,226
Net unrealized appreciation (depreciation) on investments		22,553,105
Accumulated net realized gain (loss)		(85,521,502)
Paid-in capital		296,166,290
Net assets, at value	**$**	**235,922,119**
Class A		
Net Asset Value, offering and redemption price per share ($215,520,507 ÷ 18,969,648 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.36**
Class B		
Net Asset Value, offering and redemption price per share ($20,401,612 ÷ 1,796,701 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.36**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $8,099)	$	4,857,243
Income distributions — Central Cash Management Fund		9,777
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		94,128
Total income		4,961,148
Expenses:		
Management fee		1,698,861
Administration fee		262,238
Services to shareholders		9,182
Distribution service fee (Class B)		60,189
Record keeping fees (Class B)		22,550
Custodian fee		10,639
Professional fees		68,515
Reports to shareholders		64,028
Trustees' fees and expenses		9,305
Total expenses		2,205,507
Net investment income (loss)		**2,755,641**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		18,942,284
Change in net unrealized appreciation (depreciation) on investments		(38,142,173)
Net gain (loss)		**(19,199,889)**
Net increase (decrease) in net assets resulting from operations	**$**	**(16,444,248)**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 2,755,641	$ 2,826,446
Net realized gain (loss)	18,942,284	30,809,807
Change in net unrealized appreciation (depreciation)	(38,142,173)	18,581,828
Net increase (decrease) in net assets resulting from operations	(16,444,248)	52,218,081
Distributions to shareholders from:		
Net investment income:		
Class A	(2,506,080)	(3,068,046)
Class B	(161,946)	(217,515)
Total distributions	(2,668,026)	(3,285,561)
Fund share transactions:		
Class A		
Proceeds from shares sold	34,090,411	28,003,012
Reinvestment of distributions	2,506,080	3,068,046
Payments for shares redeemed	(51,431,426)	(62,437,627)
Net increase (decrease) in net assets from Class A share transactions	(14,834,935)	(31,366,569)
Class B		
Proceeds from shares sold	3,518,495	3,472,987
Reinvestment of distributions	161,946	217,515
Payments for shares redeemed	(7,516,325)	(5,804,013)
Net increase (decrease) in net assets from Class B share transactions	(3,835,884)	(2,113,511)
Increase (decrease) in net assets	(37,783,093)	15,452,440
Net assets at beginning of period	273,705,212	258,252,772
Net assets at end of period (including undistributed net investment income of $2,724,226 and $2,636,612, respectively)	**$ 235,922,119**	**$ 273,705,212**

Other Information		
Class A		
Shares outstanding at beginning of period	20,271,172	23,383,684
Shares sold	2,809,599	2,611,387
Shares issued to shareholders in reinvestment of distributions	187,020	271,509
Shares redeemed	(4,298,143)	(5,995,408)
Net increase (decrease) in Class A shares	(1,301,524)	(3,112,512)
Shares outstanding at end of period	**18,969,648**	**20,271,172**
Class B		
Shares outstanding at beginning of period	2,147,844	2,341,698
Shares sold	291,322	327,236
Shares issued to shareholders in reinvestment of distributions	12,068	19,214
Shares redeemed	(654,533)	(540,304)
Net increase (decrease) in Class B shares	(351,143)	(193,854)
Shares outstanding at end of period	**1,796,701**	**2,147,844**

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

Financial Highlights

Class A	2011	2010	2009	2008	2007
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$12.21**	**$10.04**	**$ 7.93**	**$20.12**	**$22.93**
Income (loss) from investment operations:					
Net investment income[a]	.13	.12	.16	.13	.18
Net realized and unrealized gain (loss)	(.85)	2.19	2.11	(4.92)	.54
Total from investment operations	(.72)	2.31	2.27	(4.79)	.72
Less distributions from:					
Net investment income	(.13)	(.14)	(.16)	(.29)	(.23)
Net realized gains	—	—	—	(7.11)	(3.30)
Total distributions	(.13)	(.14)	(.16)	(7.40)	(3.53)
Net asset value, end of period	**$11.36**	**$12.21**	**$10.04**	**$ 7.93**	**$20.12**
Total Return (%)	(6.08)	23.07	29.70	(33.42)[b]	3.06
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	216	247	235	223	468
Ratio of expenses before expense reductions (%)	.81	.82	.79	.83	.78
Ratio of expenses after expense reductions (%)	.81	.82	.79	.82	.78
Ratio of net investment income (%)	1.08	1.14	1.92	1.13	.85
Portfolio turnover rate (%)	36	38	72	49	110

[a] Based on average shares outstanding during the period.

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

Class B	2011	2010	2009	2008	2007
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$12.20**	**$10.03**	**$ 7.92**	**$20.08**	**$22.88**
Income (loss) from investment operations:					
Net investment income[a]	.09	.08	.13	.09	.10
Net realized and unrealized gain (loss)	(.85)	2.19	2.12	(4.92)	.54
Total from investment operations	(.76)	2.27	2.25	(4.83)	.64
Less distributions from:					
Net investment income	(.08)	(.10)	(.14)	(.22)	(.14)
Net realized gains	—	—	—	(7.11)	(3.30)
Total distributions	(.08)	(.10)	(.14)	(7.33)	(3.44)
Net asset value, end of period	**$11.36**	**$12.20**	**$10.03**	**$ 7.92**	**$20.08**
Total Return (%)	(6.33)	22.66	29.28	(33.67)[b]	2.67
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	20	26	23	24	34
Ratio of expenses before expense reductions (%)	1.15	1.17	1.14	1.18	1.16
Ratio of expenses after expense reductions (%)	1.15	1.17	1.14	1.17	1.16
Ratio of net investment income (%)	.74	.79	1.57	.78	.47
Portfolio turnover rate (%)	36	38	72	49	110

[a] Based on average shares outstanding during the period.

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

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to recordkeeping fees up to 0.15% and Rule 12b-1 fees under the 1940 Act equal to an annual rate of 0.25% of the average daily net assets of the Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $84,943,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2017, the expiration date, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 2,674,141
Capital loss carryforwards	$ (84,943,000)
Unrealized appreciation (depreciation) on investments	$ 21,975,017

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 2,668,026	$ 3,285,561

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Real Estate Investment Trusts. The Fund periodically recharacterizes distributions received from a Real Estate Investment Trust ("REIT") investment based on information provided by the REIT into the following categories: ordinary income, long-term and short-term capital gains, and return of capital. If information is not available timely from a REIT, the recharacterization will be estimated for financial reporting purposes and a recharacterization will be made to the accounting records in the following year when such information becomes available. Distributions received from REITs in excess of income are recorded as either a reduction of cost of investments or realized gains. The Fund distinguishes 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 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. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments) aggregated $92,043,210 and $109,440,231, respectively.

C. Related Parties

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

Dreman Value Management, L.L.C. ("DVM") serves as subadvisor. As a subadvisor to the Fund, DVM makes investment decisions and buys and sells securities for the Fund. DVM is paid by the Advisor for the services DVM provides to the Fund.

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

First $250 million	.650%
Next $750 million	.620%
Next $1.5 billion	.600%
Next $2.5 billion	.580%
Next $2.5 billion	.550%
Next $2.5 billion	.540%
Next $2.5 billion	.530%
Over $12.5 billion	.520%

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.65% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $262,238, of which $19,965 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at December 31, 2011
Class A	$ 548	$ 139
Class B	380	102
	$ 928	**$ 241**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2011, the Distribution Service Fee aggregated $60,189, of which $4,267 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $14,468, of which $3,063 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

D. Ownership of the Fund

At December 31, 2011, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 36%, 23% and 14%. Three participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 40%, 13% and 12%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Dreman Small Mid Cap Value VIP:

We have audited the accompanying statement of assets and liabilities of DWS Dreman Small Mid Cap Value VIP (the "Fund"), one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, and the 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Dreman Small Mid Cap Value VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 898.70	$ 897.30
Expenses Paid per $1,000*	$ 3.88	$ 5.55
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,021.12	$1,019.36
Expenses Paid per $1,000*	$ 4.13	$ 5.90

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

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Dreman Small Mid Cap Value VIP	.81%	1.16%

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

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

Tax Information

(Unaudited)

For corporate shareholders, 100% of income dividends paid during the Fund's fiscal year ended December 31, 2011 qualified for the 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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Dreman Small Mid Cap Value VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DWS and Dreman Value Management, L.L.C. ("DVM") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS's and DVM'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, DWS and DVM provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. The Board also requested and received information regarding DWS's oversight of Fund sub-advisors, including DVM. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 4th 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 the five-year period and underperformed its benchmark in the one- and three-year periods ended December 31, 2010. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DWS and DVM the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized that DWS 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 DWS and DVM 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 DWS 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, 2010). With respect to the sub-advisory fee paid to DVM, the Board noted that the fee is paid by DWS 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, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS and DVM.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available. The Board did not consider the profitability of DVM with respect to the Fund. The Board noted that DWS pays DVM's fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DWS.

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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and DVM and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and DVM and their affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered the incidental public relations benefits to DWS and DVM related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DWS to the oversight of the investment sub-advisor's compliance program and compliance with the applicable fund policies and procedures.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2DSMC-2 (R-025829-1 2/12)

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Global Thematic VIP

DWS INVESTMENTS
Deutsche Bank Group

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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

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

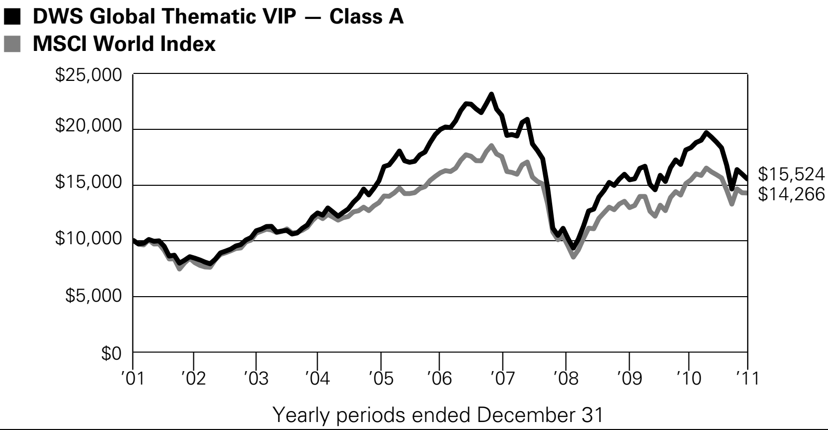
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 1.41% and 1.76% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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 U.S., Canada, Europe, Australia and the Far East. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates.

Index returns do not reflect any fees or expenses and 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	$8,561	$13,995	$7,773	$15,524
	Average annual total return	–14.39%	11.86%	–4.91%	4.50%
MSCI World Index	Growth of $10,000	$9,446	$13,723	$8,871	$14,266
	Average annual total return	–5.54%	11.13%	–2.37%	3.62%

DWS Global Thematic VIP		**1-Year**	**3-Year**	**5-Year**	**Life of Class***
Class B	Growth of $10,000	$8,533	$13,841	$7,637	$16,050
	Average annual total return	–14.67%	11.44%	–5.25%	5.11%
MSCI World Index	Growth of $10,000	$9,446	$13,723	$8,871	$15,645
	Average annual total return	–5.54%	11.13%	–2.37%	4.82%

The growth of $10,000 is cumulative.

* The Fund commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.

Management Summary

December 31, 2011 (Unaudited)

The Fund's Class A shares returned –14.39% (unadjusted for contract charges) during 2011, underperforming the –5.54% return of the Morgan Stanley Capital International (MSCI) World Index.[1] In managing the Fund, we strive to identify the themes that we believe will be the important long-term drivers of the global business environment, then we use intensive fundamental research and analytical tools to invest in companies that can benefit as these themes unfold. In a reflection of the challenging market environment, all but three of the Fund's 14 themes finished the year with a negative absolute return.[2]

Our best-performing themes were those that emphasize the more defensive areas of the market, such as Market Hedge (which holds companies that can provide a potential cushion against downside risk in the broader market), Personalized Medicine (which seeks companies at the forefront of the shift in medical care to "predict-and-prevent" from "identify-and-cure") and Public/Private Partnerships (which invests in companies that partner with governments and regulators). However, we underperformed the benchmark due to our positions in themes that are sensitive to global growth and/or that have a focus on emerging-markets stocks, which underperformed their developed-market counterparts by a wide margin. Also, our performance was hurt by certain distressed financials that remained under pressure despite their potentially attractive valuations. The strongest positive contributors among individual stocks were Newmont Mining Corp. and Williams Companies, Inc., while the leading detractors were the Austrian bank Erste Group Bank AG and the German company Commerzbank AG.[*]

The debt crisis in Europe remained the key focus of the markets throughout the year. While market conditions improved somewhat, the open-ended risk posed by the crisis continued to weigh heavily on valuations. We believe that the situation in Europe does not impact the relevance of our long-term themes, but it has distracted investors and fueled a flight to low-yielding government bonds. During times of rising uncertainty, the market is less willing to look around the next corner and give credit to the developments that can materially transform applied science, global food chains and South-South trade routes, or reward those firms that have shown how to navigate through every crisis in the past.

Oliver Kratz, PhD

Portfolio Manager, Global Thematic Partners, LLC
Subadvisor to the Fund

1 The Morgan Stanley Capital International (MSCI) World Index is an unmanaged, capitalization-weighted measure of global stock markets including the U.S., Canada, Europe, Australia and the Far East. The index is calculated using closing local market prices and translates into U.S. dollars using the London close foreign exchange rates. Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

2 Absolute return is the return, expressed as a percentage, which an asset achieves over a certain period of time.

* Not held in the portfolio as of December 31, 2011.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	98%	94%
Preferred Stocks	2%	1%
Participatory Notes	0%	3%
Cash Equivalents	—	2%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/11**	**12/31/10**
Financials	16%	21%
Information Technology	16%	14%
Health Care	15%	12%
Energy	13%	5%
Industrials	10%	11%
Materials	9%	9%
Consumer Discretionary	8%	6%
Consumer Staples	8%	11%
Telecommunication Services	3%	7%
Utilities	2%	4%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/11**	**12/31/10**
United States	42%	32%
Continental Europe	28%	23%
Asia (excluding Japan)	11%	8%
Latin America	6%	8%
Japan	6%	9%
Africa	2%	4%
Middle East	2%	4%
United Kingdom	1%	8%
Canada	1%	—
Bermuda	1%	1%
Other	—	3%
	100%	100%

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

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 98.5%		
Austria 2.4%		
Erste Group Bank AG	61,763	1,081,739
Raiffeisen Bank International AG	7,755	200,617
(Cost $1,978,509)		**1,282,356**
Bahrain 0.3%		
Aluminium Bahrain (GDR) 144A (Cost $264,341)	21,937	**153,449**
Bermuda 0.7%		
Lazard Ltd. "A" (a) (Cost $381,294)	13,279	**346,715**
Brazil 4.9%		
All America Latina Logistica	72,817	363,060
Diagnosticos da America SA	1,929	16,030
Gol Linhas Aereas Inteligentes SA (ADR) (Preferred) (b)	29,151	193,271
Itau Unibanco Holding SA (ADR) (Preferred)	23,347	433,320
Petroleo Brasileiro SA (ADR)	42,354	1,052,497
SLC Agricola SA	63,318	526,165
(Cost $3,297,149)		**2,584,343**
Canada 1.2%		
Talisman Energy, Inc.	22,406	285,477
TransAlta Corp.	16,670	343,954
(Cost $620,589)		**629,431**
China 3.3%		
China Life Insurance Co., Ltd. "H"	180,056	444,380
Home Inns & Hotels Management, Inc. (ADR)* (b)	9,888	255,110
Li Ning Co., Ltd. (b)	125,474	99,622
Mindray Medical International Ltd. (ADR) (b)	29,839	765,072
Yanzhou Coal Mining Co., Ltd. "H"	65,218	138,574
(Cost $2,129,018)		**1,702,758**
Denmark 1.1%		
AP Moller-Maersk A/S "B"	67	440,875
Vestas Wind Systems AS*	14,568	156,626
(Cost $872,622)		**597,501**
Egypt 0.5%		
Orascom Telecom Holding SAE (GDR) REG S* (Cost $177,339)	97,029	**280,391**
France 0.8%		
Renault SA (Cost $466,070)	11,720	**403,968**
Germany 8.2%		
Axel Springer AG	16,488	708,538
Deutsche Lufthansa AG (Registered)	43,737	519,898
Deutsche Post AG (Registered)	68,584	1,054,456
HeidelbergCement AG	5,115	217,053
Infineon Technologies AG	61,613	463,743
Metro AG	16,746	611,169
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	1,683	206,436
Siemens AG (Registered)	5,628	538,265
(Cost $4,598,709)		**4,319,558**

	Shares	Value ($)
Greece 0.2%		
Hellenic Exchanges SA (Cost $170,132)	24,496	**91,397**
Hong Kong 0.1%		
China Merchants Holdings International Co., Ltd. (Cost $43,965)	15,405	**44,454**
India 2.7%		
ICICI Bank Ltd. (ADR) (b)	40,114	1,060,213
Reliance Industries Ltd.	27,747	362,061
(Cost $2,059,190)		**1,422,274**
Indonesia 0.7%		
PT Semen Gresik (Persero) Tbk (Cost $236,713)	305,993	**386,509**
Israel 2.0%		
NICE Systems Ltd. (ADR)*	5,542	190,922
Teva Pharmaceutical Industries Ltd. (ADR)	21,221	856,479
(Cost $1,182,321)		**1,047,401**
Japan 5.9%		
Dai-ichi Life Insurance Co., Ltd.	218	213,992
FANUC Corp.	1,900	290,415
Hitachi Ltd.	111,000	581,814
INPEX Corp.	158	993,595
Mitsubishi UFJ Financial Group, Inc.	169,500	719,058
Toyota Motor Corp.	8,000	266,246
(Cost $2,755,460)		**3,065,120**
Korea 2.6%		
POSCO (ADR) (b)	3,923	322,078
Samsung Electronics Co., Ltd.	1,147	1,053,549
(Cost $1,085,365)		**1,375,627**
Netherlands 6.6%		
Koninklijke (Royal) KPN NV	39,955	477,021
LyondellBasell Industries NV "A" (a)	13,180	428,218
QIAGEN NV*	29,939	412,268
TNT Express NV	53,096	395,681
Unilever NV (CVA)	44,840	1,539,873
VimpelCom Ltd. (ADR) (b)	22,336	211,522
(Cost $3,626,960)		**3,464,583**
Panama 0.9%		
Copa Holdings SA "A" (Cost $338,300)	7,854	**460,794**
Puerto Rico 0.5%		
Popular, Inc.* (b) (Cost $524,685)	182,374	**253,500**
South Africa 2.2%		
MTN Group Ltd.	40,221	714,353
Murray & Roberts Holdings Ltd.*	32,873	104,206
Standard Bank Group Ltd.	28,841	352,058
(Cost $1,188,204)		**1,170,617**
Sweden 2.7%		
Telefonaktiebolaget LM Ericsson "B" (Cost $1,529,004)	136,648	**1,388,052**

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

	Shares	Value ($)
Switzerland 3.6%		
Julius Baer Group Ltd.*	20,647	803,003
Roche Holding AG (Genusschein)	4,752	803,647
UBS AG (Registered)* (a) (b)	21,949	259,656
(Cost $1,775,402)		**1,866,306**
Taiwan 1.2%		
Taiwan Semiconductor Manufacturing Co., Ltd. (ADR) (b) (Cost $603,423)	49,627	**640,685**
Thailand 0.5%		
Bangkok Bank PCL (Foreign Registered)	17,700	91,979
Kasikornbank PCL (Foreign Registered)	23,400	92,311
Seamico Securities PCL (Foreign Registered)	1,748,260	63,724
(Cost $326,297)		**248,014**
United Kingdom 0.8%		
Rio Tinto PLC (Cost $411,255)	8,571	**414,789**
United States 41.9%		
Abbott Laboratories (b)	16,262	914,412
Adobe Systems, Inc.* (b)	16,199	457,946
Advanced Micro Devices, Inc.* (b)	78,302	422,831
AGCO Corp.*	10,295	442,376
AllianceBernstein Holding LP	10,331	135,129
Allscripts Healthcare Solutions, Inc.* (b)	31,057	588,220
Amazon.com, Inc.*	1,474	255,149
Apple, Inc.*	1,983	803,115
Archer-Daniels-Midland Co. (b)	21,008	600,829
Ashland, Inc. (b)	10,519	601,266
Bank of America Corp.	137,619	765,162
Bunge Ltd. (b)	8,088	462,634
Calpine Corp.* (b)	55,098	899,750
Chevron Corp.	9,132	971,645
Cisco Systems, Inc.	20,073	362,920
Energy Transfer Partners LP (b)	10,237	469,366
Exelis, Inc.	2,585	23,394
Exxon Mobil Corp.	12,997	1,101,626
General Motors Co.* (b)	34,572	700,774
iRobot Corp.* (b)	4,022	120,057
ITT Corp.	489	9,452
Janus Capital Group, Inc.	22,793	143,824
JPMorgan Chase & Co.	20,124	669,123
Laboratory Corp. of America Holdings* (b)	18,934	1,627,756
Life Technologies Corp.*	32,350	1,258,738
Medco Health Solutions, Inc.*	8,206	458,715
Monsanto Co.	9,428	660,620
NCR Corp.*	46,191	760,304
New York Times Co. "A"* (b)	33,206	256,682
Newmont Mining Corp. (b)	8,889	533,429
Quest Software, Inc.*	14,416	268,138
RadioShack Corp. (b)	26,308	255,451
Ralcorp Holdings, Inc.*	4,151	354,911
Rock-Tenn Co. "A"	7,916	456,753
Schlumberger Ltd. (b)	3,619	247,214
Symantec Corp.* (b)	63,309	990,786
The Mosaic Co.	11,168	563,202
Whirlpool Corp. (b)	3,270	155,162
Williams Companies, Inc. (b)	33,209	1,096,560
Xylem, Inc.	2,585	66,409
(Cost $22,140,108)		**21,931,830**
Total Common Stocks (Cost $54,782,424)		**51,572,422**

Preferred Stock 1.7%

	Shares	Value ($)
Germany		
Volkswagen AG (Cost $922,238)	6,004	**897,832**

Participatory Note 0.1%

	Shares	Value ($)
Nigeria		
Bank of Nigeria (issuer HSBC Bank PLC), Expiration Date 11/5/2013 (Cost $108,883)	1,296,229	**71,081**

Securities Lending Collateral 22.2%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.18% (c) (d) (Cost $11,603,273)	11,603,273	**11,603,273**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $67,416,818)†	122.5	**64,144,608**
Other Assets and Liabilities, Net	(22.5)	**(11,766,577)**
Net Assets	100.0	**52,378,031**

* Non-income producing security.

† The cost for federal income tax purposes was $68,056,527. At December 31, 2011, net unrealized depreciation for all securities based on tax cost was $3,911,919. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,406,444 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $7,318,363.

(a) Listed on the New York Stock Exchange.

(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, 2011 amounted to $11,320,423, which is 21.6% of net assets.

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

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

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

ADR: American Depositary Receipt

CVA: Certificaten Van Aandelen

GDR: Global Depositary Receipt

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

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks & Preferred Stock (e)				
Austria	$ —	$ 1,282,356	$ —	$ 1,282,356
Bahrain	—	153,449	—	153,449
Bermuda	346,715	—	—	346,715
Brazil	2,584,343	—	—	2,584,343
Canada	629,431	—	—	629,431
China	1,020,182	682,576	—	1,702,758
Denmark	—	597,501	—	597,501
Egypt	—	280,391	—	280,391
France	—	403,968	—	403,968
Germany	—	5,217,390	—	5,217,390
Greece	—	91,397	—	91,397
Hong Kong	—	44,454	—	44,454
India	1,060,213	362,061	—	1,422,274
Indonesia	—	386,509	—	386,509
Israel	1,047,401	—	—	1,047,401
Japan	—	3,065,120	—	3,065,120
Korea	322,078	1,053,549	—	1,375,627
Netherlands	639,740	2,824,843	—	3,464,583
Panama	460,794	—	—	460,794
Puerto Rico	253,500	—	—	253,500
South Africa	—	1,170,617	—	1,170,617
Sweden	—	1,388,052	—	1,388,052
Switzerland	259,656	1,606,650	—	1,866,306
Taiwan	640,685	—	—	640,685
Thailand	—	248,014	—	248,014
United Kingdom	—	414,789	—	414,789
United States	21,931,830	—	—	21,931,830
Participatory Notes (e)	—	71,081	—	71,081
Short-Term Investments	11,603,273	—	—	11,603,273
Total	**$ 42,799,841**	**$ 21,344,767**	**$ —**	**$ 64,144,608**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(e) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $55,813,545) — including $11,320,423 of securities loaned	$	52,541,335
Investment in Daily Assets Fund Institutional (cost $11,603,273)*		11,603,273
Total investments in securities, at value (cost $67,416,818)		64,144,608
Cash		38,561
Foreign currency, at value (cost $66,313)		64,575
Receivable for investments sold		188,649
Receivable for Fund shares sold		1,958
Dividends receivable		7,549
Interest receivable		10,204
Foreign taxes recoverable		9,797
Other assets		1,079
Total assets		64,466,980
Liabilities		
Payable upon return of securities loaned		11,603,273
Payable for investments purchased		136,395
Line of credit loan payable		150,000
Payable for Fund shares redeemed		50,802
Accrued management fee		52,408
Other accrued expenses and payables		96,071
Total liabilities		12,088,949
Net assets, at value	**$**	**52,378,031**
Net Assets Consist of		
Undistributed net investment income		740,653
Net unrealized appreciation (depreciation) on:		
Investments		(3,272,210)
Foreign currency		(2,603)
Accumulated net realized gain (loss)		(53,411,887)
Paid-in capital		108,324,078
Net assets, at value	**$**	**52,378,031**
Class A		
Net Asset Value, offering and redemption price per share ($49,266,726 ÷ 6,234,878 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**7.90**
Class B		
Net Asset Value, offering and redemption price per share ($3,111,305 ÷ 393,322 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**7.91**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $127,959)	$	1,364,322
Income distributions — Central Cash Management Fund		1,010
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		92,019
Total income		1,457,351
Expenses:		
Management fee		588,501
Administration fee		64,317
Services to shareholders		2,489
Distribution service fee (Class B)		10,014
Record keeping fees (Class B)		3,958
Custodian fee		93,940
Audit and tax fees		67,640
Legal fees		8,894
Reports to shareholders		24,476
Trustees' fees and expenses		3,518
Interest expense		725
Other		26,152
Total expenses before expense reductions		894,624
Expense reductions		(218,426)
Total expenses after expense reductions		676,198
Net investment income (loss)		**781,153**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		112,714
Foreign currency		(70,797)
		41,917
Change in net unrealized appreciation (depreciation) on:		
Investments		(9,890,474)
Foreign currency		(4,711)
		(9,895,185)
Net gain (loss)		**(9,853,268)**
Net increase (decrease) in net assets resulting from operations	**$**	**(9,072,115)**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 781,153	$ 514,123
Net realized gain (loss)	41,917	7,206,315
Change in net unrealized appreciation (depreciation)	(9,895,185)	899,469
Net increase (decrease) in net assets resulting from operations	(9,072,115)	8,619,907
Distributions to shareholders from:		
Net investment income:		
Class A	(391,766)	(621,927)
Class B	(9,700)	(28,358)
Total distributions	(401,466)	(650,285)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,929,750	5,854,566
Reinvestment of distributions	391,766	621,927
Payments for shares redeemed	(13,903,803)	(12,215,497)
Net increase (decrease) in net assets from Class A share transactions	(9,582,287)	(5,739,004)
Class B		
Proceeds from shares sold	106,041	308,827
Reinvestment of distributions	9,700	28,358
Payments for shares redeemed	(1,299,469)	(1,123,823)
Net increase (decrease) in net assets from Class B share transactions	(1,183,728)	(786,638)
Increase (decrease) in net assets	(20,239,596)	1,443,980
Net assets at beginning of period	72,617,627	71,173,647
Net assets at end of period (including undistributed net investment income of $740,653 and $361,169, respectively)	**$ 52,378,031**	**$ 72,617,627**

Other Information		
Class A		
Shares outstanding at beginning of period	7,301,949	8,018,621
Shares sold	458,129	692,269
Shares issued to shareholders in reinvestment of distributions	39,334	72,065
Shares redeemed	(1,564,534)	(1,481,006)
Net increase (decrease) in Class A shares	(1,067,071)	(716,672)
Shares outstanding at end of period	**6,234,878**	**7,301,949**
Class B		
Shares outstanding at beginning of period	519,624	617,302
Shares sold	12,482	36,659
Shares issued to shareholders in reinvestment of distributions	971	3,275
Shares redeemed	(139,755)	(137,612)
Net increase (decrease) in Class B shares	(126,302)	(97,678)
Shares outstanding at end of period	**393,322**	**519,624**

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

Financial Highlights

Class A	2011	2010	2009	2008	2007
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.28**	**$ 8.24**	**$ 5.84**	**$15.66**	**$17.39**
Income (loss) from investment operations:					
Net investment income[a]	.11	.06	.08	.11	.14
Net realized and unrealized gain (loss)	(1.43)	1.06	2.42	(5.83)	.88
Total from investment operations	(1.32)	1.12	2.50	(5.72)	1.02
Less distributions from:					
Net investment income	(.06)	(.08)	(.10)	(.19)	(.11)
Net realized gains	—	—	—	(3.91)	(2.64)
Total distributions	(.06)	(.08)	(.10)	(4.10)	(2.75)
Net asset value, end of period	**$ 7.90**	**$ 9.28**	**$ 8.24**	**$ 5.84**	**$15.66**
Total Return (%)[b]	(14.39)	13.65	43.82	(47.75)	6.29
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	49	68	66	59	151
Ratio of expenses before expense reductions (%)	1.37	1.41	1.38	1.47	1.44
Ratio of expenses after expense reductions (%)	1.03	1.05	1.04	1.09	1.11
Ratio of net investment income (%)	1.24	.77	1.23	1.09	.82
Portfolio turnover rate (%)	127	165	190	229	191

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.

Class B	2011	2010	2009	2008	2007
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.29**	**$ 8.25**	**$ 5.85**	**$15.66**	**$17.38**
Income (loss) from investment operations:					
Net investment income[a]	.08	.04	.06	.07	.07
Net realized and unrealized gain (loss)	(1.44)	1.05	2.42	(5.83)	.90
Total from investment operations	(1.36)	1.09	2.48	(5.76)	.97
Less distributions from:					
Net investment income	(.02)	(.05)	(.08)	(.14)	(.05)
Net realized gains	—	—	—	(3.91)	(2.64)
Total distributions	(.02)	(.05)	(.08)	(4.05)	(2.69)
Net asset value, end of period	**$ 7.91**	**$ 9.29**	**$ 8.25**	**$ 5.85**	**$15.66**
Total Return (%)[b]	(14.67)	13.24	43.23	(47.87)	5.84
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	5	5	4	10
Ratio of expenses before expense reductions (%)	1.72	1.76	1.73	1.82	1.81
Ratio of expenses after expense reductions (%)	1.38	1.40	1.39	1.45	1.47
Ratio of net investment income (%)	.88	.42	.88	.73	.46
Portfolio turnover rate (%)	127	165	190	229	191

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to recordkeeping fees up to 0.15% and Rule 12b-1 fees under the 1940 Act equal to an annual rate of 0.25% of the average daily net assets for Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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. For certain international equity securities, in order to adjust for events which may occur between the close of the foreign exchanges and the close of the New York Stock Exchange, a fair valuation model may be used. This fair valuation model takes into account comparisons to the valuation of American Depository Receipts (ADRs), exchange-traded funds, futures contracts and certain indices and these securities are categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011.

ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Participatory Notes. The Fund invests in Participatory Notes (P-Notes). P-Notes are promissory notes designed to offer a return linked to the performance of a particular underlying equity security or market. P-Notes are issued by banks or broker-dealers and allow the Fund to gain exposure to local shares in foreign markets. Investments in P-Notes involve the same risks associated with a direct investment in the underlying foreign companies or foreign markets that they seek to replicate. Although each participation note is structured with a defined maturity date, early redemption may be possible. Risks associated with participation notes include the possible failure of a counterparty to perform in accordance with the terms of the agreement and potential delays or an inability to redeem before maturity under certain market conditions.

Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

Additionally, based on the Fund's understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which it invests, the Fund will provide for foreign taxes and, where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $51,528,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($35,241,000) and December 31, 2017 ($16,287,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2011 through December 31, 2011, the Fund elects to defer qualified late year losses of approximately $96,000 of net realized long-term capital losses and $1,494,000 of net realized short-term capital losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 744,910
Capital loss carryforwards	$ (51,528,000)
Unrealized appreciation (depreciation) on investments	$ (3,911,919)

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 401,466	$ 650,285

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments) aggregated $81,211,934 and $90,761,024, respectively.

C. Related Parties

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

Global Thematic Partners, LLC ("GTP") serves as subadvisor. As a subadvisor to the Fund, GTP makes investment decisions and buys and sells securities for the Fund. GTP is paid by the Advisor for the services GTP provides to the Fund.

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

First $250 million	.915%
Next $500 million	.865%
Next $750 million	.815%
Next $1.5 billion	.765%
Over $3 billion	.715%

For the period from January 1, 2011 through September 30, 2011, the Advisor had contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	1.03%
Class B	1.43%

Effective October 1, 2011 through September 30, 2012, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	1.02%
Class B	1.37%

Accordingly, for the year ended December 31, 2011, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $218,159, and the amount charged aggregated $370,342, which was equivalent to an annual effective rate of 0.58% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $64,317, of which $4,514 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	**Total Aggregated**	**Waived**	**Unpaid at December 31, 2011**
Class A	$ 267	$ 267	$ —
Class B	64	—	15
	$ 331	**$ 267**	**$ 15**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2011, the Distribution Service Fee aggregated $10,014, of which $668 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $15,580, of which $3,106 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

D. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls or delayed settlements, and may have prices that are more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

E. Ownership of the Fund

At December 31, 2011, two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 59% and 31%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 97%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement.

At December 31, 2011, the Fund had a $150,000 outstanding loan. Interest expense incurred on the borrowings was $725 for the year ended December 31, 2011. The average dollar amount of the borrowings was $341,346, the weighted average interest rate on these borrowings was 1.47% and the Fund had a loan outstanding for fifty-two days throughout the year. The borrowings were valued at cost, which approximates fair value.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Global Thematic VIP:

We have audited the accompanying statement of assets and liabilities of DWS Global Thematic VIP (the "Fund"), one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Global Thematic VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 824.60	$ 824.00
Expenses Paid per $1,000*	$ 4.74	$ 6.34

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,020.01	$1,018.25
Expenses Paid per $1,000*	$ 5.24	$ 7.02

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

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Global Thematic VIP	1.03%	1.38%

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

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

Tax Information

(Unaudited)

For corporate shareholders, 100% of income dividends paid during the Fund's fiscal year ended December 31, 2011 qualified for the dividends received deduction.

The Fund paid foreign taxes of $70,825 and earned $491,000 of foreign source income during the year ended December 31, 2011. Pursuant to Section 853 of the International Revenue Code, the Fund designates $0.01 per share as foreign taxes paid and $0.07 per share as income earned from foreign sources for the year ended December 31, 2011.

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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Global Thematic VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DWS and Global Thematic Partners, LLC ("Global Thematic") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS's and Global Thematic'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, DWS and Global Thematic provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. The Board also requested and received information regarding DWS's oversight of Fund sub-advisors, including Global Thematic. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, 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- and five-year periods and has underperformed its benchmark in the three-year period ended December 31, 2010.

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 DWS and Global Thematic 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 a 0.10% fee paid to DWS 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, 2010). With respect to the sub-advisory fee paid to Global Thematic, the Board noted that the fee is paid by DWS 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, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 DWS helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS and Global Thematic.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available. The Board did not consider the profitability of Global Thematic with respect to the Fund. The Board noted that DWS pays Global Thematic's fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DWS.

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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Global Thematic and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and Global Thematic and their affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS and Global Thematic 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 DWS and Global Thematic related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DWS to the oversight of the investment sub-advisor's compliance program and compliance with the applicable fund policies and procedures.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GT-2 (R-025830-1 2/12)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Government & Agency Securities VIP

DWS INVESTMENTS
Deutsche Bank Group

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

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. In the current market environment, mortgage-backed securities are experiencing increased volatility. The "full faith and credit" guarantee of the U.S. government applies to the timely repayment of interest, and does not eliminate market risk. Because of the rising U.S. government debt burden, it is possible that the U.S. government may not be able to meet its financial obligations or that securities issued by the U.S. government may experience credit downgrades. The fund may lend securities to approved institutions. See the prospectus for details.

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

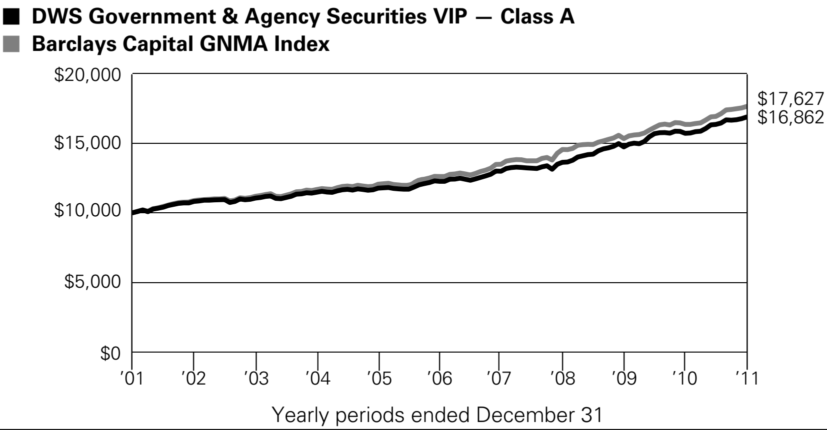
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 0.64% and 0.99% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in DWS Government & Agency Securities VIP



The Barclays Capital GNMA Index is an unmanaged, market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association.

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

Comparative Results

DWS Government & Agency Securities VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,746	$12,383	$13,767	$16,862
	Average annual total return	7.46%	7.38%	6.60%	5.36%
Barclays Capital GNMA Index	Growth of $10,000	$10,790	$12,128	$13,996	$17,627
	Average annual total return	7.90%	6.64%	6.95%	5.83%

DWS Government & Agency Securities VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$10,715	$12,260	$13,521	$15,656
	Average annual total return	7.15%	7.03%	6.22%	4.83%
Barclays Capital GNMA Index	Growth of $10,000	$10,790	$12,128	$13,996	$16,892
	Average annual total return	7.90%	6.64%	6.95%	5.67%

The growth of $10,000 is cumulative.

* The Fund commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.

Management Summary

December 31, 2011 (Unaudited)

During the 12-month period ended December 31, 2011, the U.S. Federal Reserve Board (the Fed) maintained the benchmark federal funds rate at near-zero levels and engaged in bond purchases designed to lower longer-term interest rates as it sought to stimulate economic growth.[1] U.S. Treasury yields fell from already historically low levels for the 12 months, as for much of the year investors sought a refuge from the debt crisis in Europe. Most sectors of the bond market benefited from the declining rate environment, with high-quality bonds that trade at a yield advantage vs. U.S. Treasuries benefiting in particular as investors sought yield in an environment of extraordinarily low interest rates.

During the 12-month period ended December 31, 2011, the Fund provided a total return of 7.46% (Class A shares, unadjusted for contract charges), compared with the 7.90% return of its benchmark, the Barclays Capital GNMA Index.[2]

As we expected prepayments to remain low, the Fund maintained a focus on higher-coupon mortgages during the period ended December 31, 2011. At the same time, we have sought mortgage pools with relatively predictable cash flows. This positioning helped performance for most of the period, as the market was willing to pay a significant premium for these characteristics and these bonds outperformed the broader mortgage-backed market. Performance was also helped by holdings of interest-only obligations that were structured to perform well if prepayments remained low. During the period, we maintained an above-benchmark overall duration and sensitivity to interest rate changes by incorporating a modest position in U.S. Treasuries and Treasury futures. This position added to relative performance in an environment of declining interest rates. Over the last few months of the period, the Fund's holdings that were expected to take advantage of overall low prepayment rates underperformed. This was driven by market speculation over the eventual outlines of a government plan to promote easier refinancing for homeowners with underwater, or negative equity, mortgages. While there are no proposals that would impact GNMA securities directly, the fear is that such a program could result in higher-coupon pools that underlie some traditional mortgage-backed securities being prepaid at par, hurting returns for investors. Despite historically low mortgage rates, with refinancing continuing to be difficult for many homeowners given underwater mortgages and tightened lending standards, we remain comfortable with our overall focus on generating income by holding government-backed bonds with higher coupons and where we anticipate steady cash flows based on specific characteristics.

William Chepolis, CFA
Ohn Choe, CFA
John D. Ryan
Portfolio Managers

1 The federal funds rate is the interest rate, set by the U.S. Federal Reserve, at which banks lend money to each other, usually on an overnight basis.

2 The Barclays Capital GNMA Index is an unmanaged, market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association.

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

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Mortgage-Backed Securities Pass-Throughs	64%	69%
Government & Agency Obligations	22%	14%
Collateralized Mortgage Obligations	14%	15%
Cash Equivalents	—	2%
	100%	100%

Coupons*	**12/31/11**	**12/31/10**
Less than 4.5%	43%	4%
4.5%–5.49%	39%	50%
5.5%–6.49%	13%	40%
6.5%–7.49%	4%	4%
7.5% and Greater	1%	2%
	100%	100%

Interest Rate Sensitivity	**12/31/11**	**12/31/10**
Effective Maturity	5.0 years	5.9 years
Effective Duration	4.4 years	5.0 years

* Excludes Cash Equivalents, Securities Lending Collateral, U.S. Treasury Bills and Options Purchased.

Asset allocation, coupons and interest rate sensitivity are subject to change.

Effective maturity is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Principal Amount ($)	Value ($)
Mortgage-Backed Securities Pass-Throughs 77.7%		
Federal Home Loan Mortgage Corp.:		
3.5%, 4/1/2041 (a)	5,000,000	5,134,375
4.0%, 1/1/2040 (a)	15,000,000	15,728,907
7.0%, with various maturities from 6/1/2032 until 8/1/2035	204,239	224,466
Federal National Mortgage Association:		
4.5%, with various maturities from 4/1/2039 until 5/1/2041 (a)	13,630,535	14,510,376
5.0%, 10/1/2033	335,637	362,475
Government National Mortgage Association:		
4.5%, with various maturities from 2/15/2039 until 10/20/2041 (a)	4,912,517	5,418,667
4.55%, 1/15/2041	666,686	732,932
4.625%, 5/15/2041	202,663	222,941
5.0%, with various maturities from 11/20/2032 until 8/20/2041 (a) (b)	26,374,727	29,356,099
5.5%, with various maturities from 3/15/2029 until 7/20/2040 (a)	28,743,391	32,159,456
6.0%, with various maturities from 7/15/2014 until 5/15/2040 (a)	8,465,319	9,578,248
6.5%, with various maturities from 4/15/2031 until 2/15/2039	4,025,905	4,580,636
7.0%, with various maturities from 2/20/2027 until 11/15/2038	718,143	818,260
7.5%, 10/20/2031	10,248	11,989
Total Mortgage-Backed Securities Pass-Throughs (Cost $111,975,933)		**118,839,827**
Collateralized Mortgage Obligations 17.6%		
Fannie Mae Benchmark Remic, "ZA", Series 2007-B2, 5.5%, 6/25/2037	1,800,347	2,073,773
Fannie Mae Whole Loan, "1A6", Series 2007-W8, 6.461%*, 9/25/2037	698,327	777,571
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	718,171	647,366
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	1,318,976	151,908
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	1,636,494	193,233
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	333,333	40,117
"AI", Series 3900, Interest Only, 3.5%, 7/15/2013	6,492,832	221,291
"IA", Series 3800, Interest Only, 3.5%, 12/15/2022	3,433,336	151,199
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	2,335,215	201,864
"NI", Series 3657, Interest Only, 4.5%, 8/15/2027	1,905,045	133,285

	Principal Amount ($)	Value ($)
"ZK", Series 3382, 5.0%, 7/15/2037	1,225,982	1,389,439
"22", Series 243, Interest Only, 5.133%**, 6/15/2021	1,661,923	161,414
"SC", Series 3326, Interest Only, 5.762%**, 6/15/2037	727,601	94,776
"PI", Series 2535, Interest Only, 6.0%, 9/15/2032	700,656	45,037
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	350,213	52,112
"WS", Series 2877, Interest Only, 6.322%**, 10/15/2034	758,398	71,206
"A", Series 172, Interest Only, 6.5%, 1/1/2024	39,192	6,194
"S", Series 2416, Interest Only, 7.822%**, 2/15/2032	500,187	107,260
"ST", Series 2411, Interest Only, 8.472%**, 6/15/2021	1,864,636	274,686
"KS", Series 2064, Interest Only, 9.838%**, 5/15/2022	494,417	109,960
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	333,333	31,354
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	3,340,591	257,668
"25", Series 351, Interest Only, 4.5%, 5/1/2019	369,595	32,607
"HI", Series 2009-77, Interest Only, 4.5%, 9/25/2027	1,404,528	126,616
"20", Series 334, Interest Only, 5.0%, 3/1/2018	267,255	21,643
"21", Series 334, Interest Only, 5.0%, 3/1/2018	181,156	14,457
''23", Series 339, Interest Only, 5.0%, 7/1/2018	380,907	33,789
"26", Series 381, Interest Only, 5.0%, 12/25/2020	116,237	12,709
"ZA", Series 2008-24, 5.0%, 4/25/2038	633,030	718,662
"30", Series 381, Interest Only, 5.5%, 11/25/2019	593,139	75,444
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	1,266,161	175,515
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	846,983	106,275
"101", Series 383, Interest Only, 6.5%, 9/1/2022	1,914,707	285,167
"ZQ", Series G93-39, 6.5%, 12/25/2023	377,551	422,546
"ES", Series 2003-17, Interest Only, 6.756%**, 9/25/2022	4,803,061	324,217
"MS", Series 2007-97, 14.128%*, 12/25/2031	685,929	697,515
"SA", Series G92-57, IOette, 82.1%**, 10/25/2022	57,325	140,350
Government National Mortgage Association:		
"FB", Series 2001-28, 0.783%*, 6/16/2031	414,002	417,174
"IE", Series 2011-128, Interest Only, 3.5%, 9/20/2026	1,813,447	239,704
"JY", Series 2010-20, 4.0%, 12/20/2033	1,859,255	1,982,979
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	453,116	41,346

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

	Principal Amount ($)	Value ($)
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	872,010	72,356
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	258,633
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	1,133,742	150,786
"VB", Series 2010-26, 5.0%, 1/20/2024	600,000	694,021
"ZM", Series 2004-24, 5.0%, 4/20/2034	2,198,999	2,494,778
"Z", Series 2004-61, 5.0%, 8/16/2034	1,081,364	1,241,754
"ZB", Series 2005-15, 5.0%, 2/16/2035	1,546,922	1,758,601
"GZ", Series 2005-24, 5.0%, 3/20/2035	469,153	517,632
"ZA", Series 2005-75, 5.0%, 10/16/2035	527,790	612,543
"MZ", Series 2009-98, 5.0%, 10/16/2039	947,043	1,149,749
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	442,719	54,180
"AI", Series 2008-51, Interest Only, 5.5%, 5/16/2023	903,481	107,199
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	1,090,909	271,376
"ZA", Series 2006-7, 5.5%, 2/20/2036	2,341,352	2,764,657
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	1,252,295	86,118
"KZ", Series 2009-78, 5.5%, 9/16/2039	346,212	437,872
"BS", Series 2011-93, Interest Only, 5.818%**, 7/16/2041	2,075,718	326,818
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	512,305	94,136
"QA", Series 2007-57, Interest Only, 6.215%**, 10/20/2037	662,982	93,790
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	202,785	34,494
"SA", Series 2006-69, Interest Only, 6.515%**, 12/20/2036	1,192,334	182,598
"PS", Series 2004-34, Interest Only, 6.868%**, 4/16/2034	283,674	60,104
"SK", Series 2003-11, Interest Only, 7.418%**, 2/16/2033	758,797	149,837
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	841,130	195,066
Total Collateralized Mortgage Obligations (Cost $23,462,468)		**26,870,526**

Government & Agency Obligations 26.3%

U.S. Government Sponsored Agency 15.7%

	Principal Amount ($)	Value ($)
Federal Home Loan Bank, 5.0%, 11/17/2017	20,000,000	**24,002,000**

U.S. Treasury Obligations 10.6%

	Principal Amount ($)	Value ($)
U.S. Treasury Bill, 0.015%***, 3/8/2012 (c)	1,045,000	1,044,967
U.S. Treasury Note, 0.75%, 6/15/2014	15,000,000	15,162,885
		16,207,852
Total Government & Agency Obligations (Cost $40,124,014)		**40,209,852**

	Contracts	Value ($)
Put Options Purchased 0.0%		
Eurodollar Future, Expiration Date 3/19/2012, Strike Price $99.25 (Cost $45,085)	200	**30,000**

	Shares	Value ($)
Securities Lending Collateral 5.0%		
Daily Assets Fund Institutional, 0.18% (d) (e) (Cost $7,641,608)	7,641,608	**7,641,608**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $183,249,108)†	126.6	**193,591,813**
Other Assets and Liabilities, Net	(26.6)	**(40,683,471)**
Net Assets	100.0	**152,908,342**

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2011.

** These securities are shown at their current rate as of December 31, 2011.

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

† The cost for federal income tax purposes was $183,252,471. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $10,339,342. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $11,188,491 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $849,149.

(a) When-issued or delayed delivery securities included.

(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, 2011 amounted to $7,520,193, which is 4.9% of net assets.

(c) At December 31, 2011, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

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

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.

IOettes: These securities represent the right to receive interest payments on an underlying pool of mortgages with similar features as those associated with IO securities. Unlike IO's, a nominal amount of principal is assigned to an IOette which is small in relation to the interest flow that constitutes almost all of the IOette cash flow. The effective yield of this security is lower than the stated interest rate.

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

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

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.

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year U.S. Treasury Note	USD	3/21/2012	16	2,098,000	**20,026**

At December 31, 2011, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
Ultra Long Term U.S. Treasury Bond	USD	3/21/2012	12	1,922,250	**(2,276)**

Currency Abbreviation	
USD	United States Dollar

Written Options	Contracts	Expiration Date	Strike Price ($)	Value ($) (f)
Put Options				
Eurodollar Future (Premiums received $24,915)	200	3/19/2012	99.0	**16,250**

(f) Unrealized appreciation on written options at December 31, 2011 was $8,665.

At December 31, 2011, open interest rate swap contracts were as follows:

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation)($)
12/24/2012 12/24/2022	12,500,000[1]	Fixed — 2.36%	Floating — LIBOR	(114,743)	—	(114,743)
12/24/2012 12/24/2022	12,500,000[2]	Fixed — 2.39%	Floating — LIBOR	(80,864)	—	(80,864)
10/28/2010 10/28/2025	320,000[3]	Floating — LIBOR	Floating — 4.274%††	6,247	—	6,247
11/1/2010 11/1/2025	540,000[4]	Floating — LIBOR	Floating — 4.429%††	10,351	—	10,351
11/12/2010 11/12/2025	640,000[3]	Floating — LIBOR	Floating — 4.452%††	11,145	—	11,145
11/15/2010 11/15/2025	640,000[4]	Floating — LIBOR	Floating — 4.457%††	15,608	—	15,608
11/16/2010 11/16/2025	320,000[3]	Floating — LIBOR	Floating — 4.46%††	6,098	—	6,098
11/19/2010 11/19/2025	320,000[4]	Floating — LIBOR	Floating — 4.479%††	8,966	—	8,966
11/23/2010 11/23/2025	150,000[3]	Floating — LIBOR	Floating — 4.495%††	2,866	—	2,866
Total net unrealized depreciation						**(134,326)**

†† These interest rate swaps are shown at their current rate as of December 31, 2011.

At December 31, 2011, open total return swap contracts were as follows:

Effective/ Expiration Date	Notional Amount ($)	Fixed Cash Flows Paid	Reference Entity	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Depreciation ($)
6/9/2010 6/1/2012	6,900,000[5]	0.45%	Global Interest Rate Strategy Index	(22,358)	—	**(22,358)**

Counterparties:

1 BNP Paribas

2 UBS AG

3 Morgan Stanley

4 Barclays Capital Securities, Inc.

5 Citigroup, Inc.

LIBOR: London Interbank Offered Rate

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

For information on the Fund's policy and additional disclosures regarding futures contracts, purchased and written options contracts, interest rate swap contracts and total return swap contracts, please refer to the Derivatives section of Note B in the accompanying Notes to Financial Statements.

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed-Income Investments (g)				
Mortgage-Backed Securities Pass-Throughs	$ —	$ 118,839,827	$ —	$ 118,839,827
Collateralized Mortgage Obligations	—	26,870,526	—	26,870,526
Government & Agency Obligations	—	40,209,852	—	40,209,852
Short-Term Investments	7,641,608	—	—	7,641,608
Derivatives (h)	50,026	61,281	—	111,307
Total	**$ 7,691,634**	**$ 185,981,486**	**$ —**	**$ 193,673,120**
Liabilities				
Derivatives (h)	$ (18,526)	$ (217,965)	$ —	$ (236,491)
Total	**$ (18,526)**	**$ (217,965)**	**$ —**	**$ (236,491)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(g) See Investment Portfolio for additional detailed categorizations.

(h) Derivatives include value of purchased options and unrealized appreciation (depreciation) on open futures contracts, interest rate swap contracts, total return swap contracts and written options, at value.

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Collateralized Mortgage Obligations
Balance as of December 31, 2010	$ 518,128
Realized gains (loss)	42,664
Change in unrealized appreciation (depreciation)	(44,578)
Amortization premium/discount	(7,285)
Purchases	1,207
(Sales)	(510,136)
Transfers into Level 3	—
Transfers (out) of Level 3	—
Balance as of December 31, 2011	**$ —**
Net change in unrealized appreciation (depreciation) from investments held as of December 31, 2011	**$ —**

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

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments		
Investments in non-affiliated securities, at value (cost $175,607,500) — including $7,520,193 of securities loaned	$	185,950,205
Investment in Daily Assets Fund Institutional Fund (cost $7,641,608)*		7,641,608
Total investments in securities, at value (cost $183,249,108)		193,591,813
Cash		710,753
Deposit with broker for futures contracts		50
Receivable for investments sold		1,038,946
Receivable for investments sold — when-issued/delayed delivery securities		100,728,252
Receivable for Fund shares sold		62,385
Interest receivable		831,145
Receivable for variation margin on futures contracts		2,852
Unrealized appreciation on swap contracts		61,281
Other assets		2,633
Total assets		297,030,110
Liabilities		
Payable upon return of securities loaned		7,641,608
Payable for investments purchased		40,259,950
Payable for investments purchased — when-issued/delayed delivery securities		95,629,874
Payable for Fund shares redeemed		192,741
Options written, at value (premium received $24,915)		16,250
Unrealized depreciation on swap contracts		217,965
Accrued management fee		62,442
Other accrued expenses and payables		100,938
Total liabilities		144,121,768
Net assets, at value	**$**	**152,908,342**
Net Assets Consist of		
Undistributed net investment income		5,641,251
Net unrealized appreciation (depreciation) on:		
Investments		10,342,705
Swap contracts		(156,684)
Futures		17,750
Written options		8,665
Accumulated net realized gain (loss)		3,028,771
Paid-in capital		134,025,884
Net assets, at value	**$**	**152,908,342**
Class A		
Net Asset Value, offering and redemption price per share ($146,215,305 ÷ 11,145,622 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**13.12**
Class B		
Net Asset Value, offering and redemption price per share ($6,693,037 ÷ 511,071 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**13.10**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Interest	$	6,713,987
Income distributions — Central Cash Management Fund		5,478
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		3,428
Total income		6,722,893
Expenses:		
Management fee		695,788
Administration fee		154,619
Services to shareholders		2,180
Distribution service fee (Class B)		14,945
Record keeping fees (Class B)		5,590
Custodian fee		50,489
Audit and tax fees		69,383
Legal fees		8,260
Reports to shareholders		25,501
Trustees' fees and expenses		6,469
Other		22,767
Total expenses		1,055,991
Net investment income		**5,666,902**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		4,101,419
Swap contracts		(1,253,493)
Futures		(51,510)
Written options		145,755
		2,942,171
Change in net unrealized appreciation (depreciation) on:		
Investments		2,208,549
Swap contracts		1,851
Futures		163,433
Written options		8,665
		2,382,498
Net gain (loss)		**5,324,669**
Net increase (decrease) in net assets resulting from operations	**$**	**10,991,571**

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, 2011	2010
Operations:		
Net investment income	$ 5,666,902	$ 6,744,096
Net realized gain (loss)	2,942,171	3,185,188
Change in net unrealized appreciation (depreciation)	2,382,498	1,407,447
Net increase (decrease) in net assets resulting from operations	10,991,571	11,336,731
Distributions to shareholders from:		
Net investment income:		
Class A	(6,311,902)	(7,785,441)
Class B	(230,895)	(277,185)
Net realized gain:		
Class A	(2,391,762)	—
Class B	(95,528)	—
Total distributions	(9,030,087)	(8,062,626)
Fund share transactions:		
Class A		
Proceeds from shares sold	31,578,112	38,574,553
Reinvestment of distributions	8,703,664	7,785,441
Payments for shares redeemed	(53,221,292)	(61,339,038)
Net increase (decrease) in net assets from Class A share transactions	(12,939,516)	(14,979,044)
Class B		
Proceeds from shares sold	1,566,129	653,336
Reinvestment of distributions	326,423	277,185
Payments for shares redeemed	(1,133,228)	(1,704,050)
Net increase (decrease) in net assets from Class B share transactions	759,324	(773,529)
Increase (decrease) in net assets	(10,218,708)	(12,478,468)
Net assets at beginning of period	163,127,050	175,605,518
Net assets at end of period (including undistributed net investment income of $5,641,251 and $6,521,765, respectively)	**$ 152,908,342**	**$ 163,127,050**

Other Information	2011	2010
Class A		
Shares outstanding at beginning of period	12,120,178	13,231,519
Shares sold	2,446,836	2,996,102
Shares issued to shareholders in reinvestment of distributions	700,214	623,833
Shares redeemed	(4,121,606)	(4,731,276)
Net increase (decrease) in Class A shares	(974,556)	(1,111,341)
Shares outstanding at end of period	**11,145,622**	**12,120,178**
Class B		
Shares outstanding at beginning of period	452,192	510,999
Shares sold	120,662	50,683
Shares issued to shareholders in reinvestment of distributions	26,240	22,193
Shares redeemed	(88,023)	(131,683)
Net increase (decrease) in Class B shares	58,879	(58,807)
Shares outstanding at end of period	**511,071**	**452,192**

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

Financial Highlights

Class A	2011	2010	2009	2008	2007
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$12.98**	**$12.78**	**$12.40**	**$12.38**	**$12.28**
Income (loss) from investment operations:					
Net investment income[a]	.48	.50	.52	.56	.58
Net realized and unrealized gain (loss)	.45	.32	.45	.04	.12
Total from investment operations	.93	.82	.97	.60	.70
Less distributions from:					
Net investment income	(.57)	(.62)	(.59)	(.58)	(.60)
Net realized gains	(.22)	—	—	—	—
Total distributions	(.79)	(.62)	(.59)	(.58)	(.60)
Net asset value, end of period	**$13.12**	**$12.98**	**$12.78**	**$12.40**	**$12.38**
Total Return (%)	7.46	6.61	8.08	4.93[b]	5.95[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	146	157	169	211	199
Ratio of expenses before expense reductions (%)	.67	.64	.58	.66	.66
Ratio of expenses after expense reductions (%)	.67	.64	.58	.65	.63
Ratio of net investment income (%)	3.68	3.86	4.16	4.58	4.77
Portfolio turnover rate (%)	673	423	390	543	465

[a] Based on average shares outstanding during the period.

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

Class B	2011	2010	2009	2008	2007
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$12.95**	**$12.75**	**$12.37**	**$12.35**	**$12.25**
Income (loss) from investment operations:					
Net investment income[a]	.43	.46	.48	.52	.53
Net realized and unrealized gain (loss)	.46	.31	.45	.03	.12
Total from investment operations	.89	.77	.93	.55	.65
Less distributions from:					
Net investment income	(.52)	(.57)	(.55)	(.53)	(.55)
Net realized gains	(.22)	—	—	—	—
Total distributions	(.74)	(.57)	(.55)	(.53)	(.55)
Net asset value, end of period	**$13.10**	**$12.95**	**$12.75**	**$12.37**	**$12.35**
Total Return (%)	7.15	6.24	7.70	4.60[b]	5.43[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	7	6	7	8	5
Ratio of expenses before expense reductions (%)	1.01	.99	.92	1.00	1.04
Ratio of expenses after expense reductions (%)	1.01	.99	.92	1.00	1.01
Ratio of net investment income (%)	3.34	3.51	3.81	4.24	4.39
Portfolio turnover rate (%)	673	423	390	543	465

[a] Based on average shares outstanding during the period.

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

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to recordkeeping fees up to 0.15% and Rule 12b-1 fees under the 1940 Act equal to an annual rate of 0.25% of the average daily net assets of the Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from one or more broker-dealers. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Exchange-traded options are valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked prices or at the most recent asked price (bid for purchased options) if no bid or asked price are available. Exchange-traded options are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market

in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Mortgage Dollar Rolls. The Fund may enter into mortgage dollar rolls in which the Fund 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 Fund 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 Fund is able to repurchase them. There can be no assurance that the Fund'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. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into a purchase transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery transactions from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

Federal Income Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 5,994,840
Undistributed net long-term capital gains	$ 2,689,922
Unrealized appreciation (depreciation) on investments	$ 10,339,342

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 7,717,287	$ 8,062,626
Distributions from long-term capital gains*	$ 1,312,800	$ —

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund.

B. Derivative Instruments

Interest Rate Swap Contracts. For the year ended December 31, 2011, the Fund entered into interest rate swap transactions to gain exposure to different parts of the yield curve while managing overall duration. 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 Fund 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 Fund a variable rate payment, or the Fund agrees to receive from the counterparty a fixed rate payment in exchange for the counterparty agreeing to receive from the Fund a variable rate payment. The payment obligations are based on the notional amount of the swap. Certain risks may arise when entering into swap transactions including counterparty default, liquidity or unfavorable changes in interest rates. In connection with these agreements, securities and or cash may be identified as collateral in accordance with the terms of the swap agreements to provide assets of value and recourse in the event of default. The maximum counterparty credit risk is the net present value of the cash flows to be received from or paid to the counterparty over the term of the interest rate swap contract, to the extent that this amount is beneficial to the Fund, in addition to any related collateral posted to the counterparty by the Fund. This risk may be partially reduced by a master netting arrangement between the Fund and the counterparty. The value of the swap is adjusted daily and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations.

A summary of the open interest rate swap contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $2,930,000 to $29,930,000.

Total Return Swap Contracts. Total return swaps involve commitments to pay interest in exchange for a market-linked return based on a notional amount. For the year ended December 31, 2011, the Fund entered into total return swap transactions to enhance potential gains. 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 Fund 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. The value of the swap is adjusted daily and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of each measurement period are recorded as realized gain or loss in the Statement of Operations.

A summary of the open total return swap contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in total return swap contracts had a total notional amount of $6,900,000.

Options. An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the Fund if the option is exercised. Interest rate options are comprised of multiple European style options that have periodic exercise dates within the terms of the contract. For the year ended December 31, 2011, the Fund entered into options on interest rate futures and on interest rates in order to hedge portfolio assets against potential adverse interest rate movements of portfolio assets.

If the Fund writes a covered call option, the Fund foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Fund writes a put option it accepts the risk of a decline in the value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

A summary of the open purchased option contracts as of December 31, 2011 is included in the Fund's Investment Portfolio. A summary of open written option contracts is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in written option contracts had a total value generally indicative of a range from $0 to approximately $26,000, and purchased option contracts had a total value generally indicative of a range from $0 to approximately $74,000.

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011, is included in a table following the Fund's Investment Portfolio. For the period ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $28,255,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $16,307,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Purchased Options**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ 30,000	$ 61,281	$ 20,026	$ 111,307

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

(a) Investment in non-affiliated securities, at value (includes purchased options), unrealized appreciation on swap contracts

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

Liability Derivatives	**Written Options**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ (16,250)	$ (217,965)	$ (2,276)	$ (236,491)

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

(a) Unrealized depreciation swap contracts and options written, at value

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Purchased Options**	**Written Options**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ (47,437)	$ 145,755	$ (1,253,493)	$ (51,510)	$ (1,206,685)

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

(a) Net realized gain (loss) from investments (includes purchased options), written options, swap contracts and futures, respectively

Change in Net Unrealized Appreciation (Depreciation)	**Purchased Options**	**Written Options**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ (15,085)	$ 8,665	$ 1,851	$ 163,433	$ 158,864

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

(a) Change in net unrealized appreciation (depreciation) from investments (includes purchased options), written options, swap contracts and futures, respectively

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $1,153,218,736 and $1,177,035,889, respectively. Purchases and sales of U.S. Treasury obligations aggregated $36,479,042 and $23,836,344, respectively.

For the year ended December 31, 2011, transactions for written options were as follows:

	Number of Contracts	**Premiums**
Outstanding, beginning of period	—	$ —
Options written	29,600,290	452,377
Options closed	(14,800,090)	(229,882)
Options expired	(14,800,000)	(197,580)
Outstanding, end of period	**200**	**$ 24,915**

D. Related Parties

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

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

First $250 million	.450%
Next $750 million	.430%
Next $1.5 billion	.410%
Next $2.5 billion	.400%
Next $2.5 billion	.380%
Next $2.5 billion	.360%
Next $2.5 billion	.340%
Over $12.5 billion	.320%

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.45% of the Fund's average daily net assets.

For the period from October 1, 2011 through September 30, 2012, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.66%.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $154,619, of which $13,199 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

	Total Aggregated	Unpaid at December 31, 2011
Class A	$ 260	$ 67
Class B	45	10
	$ 305	**$ 77**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2011, the Distribution Service Fee aggregated $14,945, of which $1,428 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,722, of which $1,558 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Ownership of the Fund

At December 31, 2011, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 44%, 34% and 15%. One Participating Insurance

Company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 97%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Government & Agency Securities VIP:

We have audited the accompanying statement of assets and liabilities of DWS Government & Agency Securities VIP (the "Fund"), one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, 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 DWS Government & Agency Securities VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,042.70	$1,041.50
Expenses Paid per $1,000*	$ 3.35	$ 5.09

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,021.93	$1,020.21
Expenses Paid per $1,000*	$ 3.31	$ 5.04

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

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS Government & Agency Securities VIP	.65%	.99%

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

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

Tax Information

(Unaudited)

The Fund paid distributions of $0.11 per share from net long-term capital gains during its year ended December 31, 2011, of which 100% represents 15% rate gains.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $2,972,000 as capital gain dividends for its year ended December 31, 2011, of which 100% represents 15% rate gains.

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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Government & Agency Securities VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS'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, DWS provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, 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 the one-, three- and five-year periods ended December 31, 2010.

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 DWS 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 a 0.10% fee paid to DWS 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, 2010). 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, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 DWS helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GAS-2 (R-025831-1 2/12)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS High Income VIP

DWS INVESTMENTS
Deutsche Bank Group

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

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The fund may lend securities to approved institutions. See the prospectus for details.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., 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

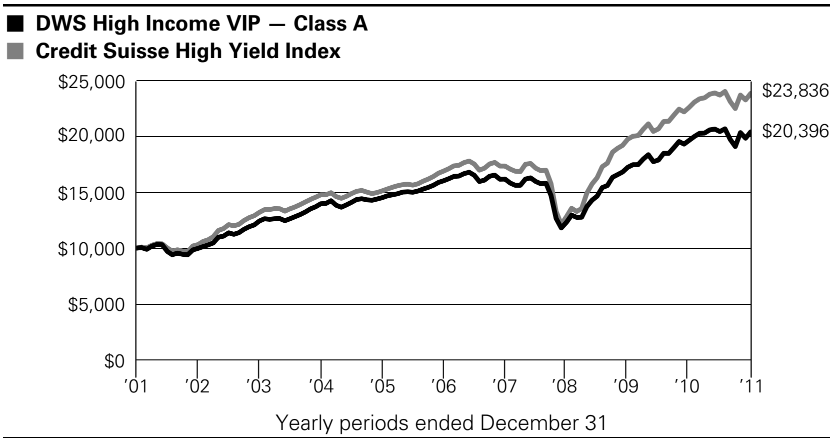
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 0.72% and 0.99% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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

Comparative Results

DWS High Income VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class A	Growth of $10,000	$10,384	$16,571	$12,725	$20,396
	Average annual total return	3.84%	18.33%	4.94%	7.39%
Credit Suisse High Yield Index	Growth of $10,000	$10,547	$18,611	$14,103	$23,836
	Average annual total return	5.47%	23.00%	7.12%	9.07%

DWS High Income VIP		**1-Year**	**3-Year**	**5-Year**	**Life of Class***
Class B	Growth of $10,000	$10,357	$16,434	$12,536	$20,358
	Average annual total return	3.57%	18.01%	4.62%	7.77%
Credit Suisse High Yield Index	Growth of $10,000	$10,547	$18,611	$14,103	$23,798
	Average annual total return	5.47%	23.00%	7.12%	9.55%

The growth of $10,000 is cumulative.

* The Fund commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.

Management Summary

The Class A shares of the Fund rose 3.84% (unadjusted for contract charges) during the 12 months ended December 31, 2011, underperforming the benchmark, the Credit Suisse High Yield Index.[1] High-yield bonds — as gauged by the Fund's benchmark — returned 5.47% for the 12 months ended December 31, 2011 but underperformed domestic investment-grade bonds, as measured by the 7.84% return of the Barclays Capital U.S. Aggregate Bond Index for the same period.[2] High-yield bonds performed very well in the first half of the year due to a favorable investment backdrop characterized by low government bond yields, a robust appetite for risk among investors, and the healthy underlying fundamentals of the high-yield asset class. In the third quarter, however, investors began to focus on the negative economic developments in Europe, leading to heightened risk aversion and underperformance for high yield during that time. This downturn was followed by a strong rally in the benchmark of 6.02% in the fourth quarter, during which signs of improving economic growth and increased clarity out of Europe fueled a revival of investor risk appetites.

Favorable security selection was the most important factor driving the Fund's relative performance during the past year, as we were helped by our positions in the coated paper manufacturer NewPage Corporation,* the Italian telecom operator Wind Acquisition Finance SA and the pork producer Smithfield Foods, Inc. Our largest detractors were our positions in bonds issued by the specialty chemical maker Momentive Performance Materials, Inc. and the travel booking company Travelport LLC.

We maintain a cautiously optimistic outlook on high-yield bonds. We continue to believe the asset class offers investors a favorable tradeoff of risk and return via the combination of an attractive yield spread and a low default rate. Having said this, we expect that market volatility will remain elevated due to concerns about slowing growth in the developed economies, government debt problems in Europe and potential economic weakness in the emerging markets.

At the end of the period, the Fund held a solid overweight within the single-B credit tier, an approximate index weight to riskier triple-C issues and an underweight in the double-B portion of the market.[3,4] Given the low-default environment, we believe that individual defaults can have an amplified impact on a portfolio's performance. As a result, we continue to seek to avoid potential defaults through our bottom-up credit research and security selection process.[5]

Gary Russell, CFA
Portfolio Manager

1 The Credit Suisse High Yield Index is an unmanaged, trader-priced portfolio constructed to mirror the global high-yield debt market.

2 The Barclays Capital U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities with average maturities of one year or more.

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

3 "Underweight" means the Fund holds a lower weighting in a given sector or security than the benchmark. "Overweight" means it holds a higher weighting.

4 Credit quality measures 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. Credit quality does not remove market risk and is subject to change.

5 Default — failure to pay interest or principal when it is due.

* Not held in the portfolio as of December 31, 2011.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Corporate Bonds	90%	87%
Cash Equivalents	8%	8%
Government & Agency Obligations	1%	—
Loan Participations and Assignments	1%	4%
Preferred Securities	0%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral)	**12/31/11**	**12/31/10**
Consumer Discretionary	22%	20%
Financials	15%	19%
Telecommunication Services	14%	11%
Materials	12%	12%
Energy	12%	12%
Industrials	10%	10%
Information Technology	5%	4%
Consumer Staples	4%	4%
Health Care	3%	5%
Utilities	3%	3%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/11**	**12/31/10**
AAA	1%	—
BBB	3%	2%
BB	32%	28%
B	52%	53%
CCC	11%	12%
Not Rated	1%	5%
	100%	100%

Asset allocation and sector diversification are subject to change.

The quality ratings represent the higher 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. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2011

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 87.9%		
Consumer Discretionary 18.4%		
AMC Entertainment, Inc.:		
8.0%, 3/1/2014	590,000	582,625
8.75%, 6/1/2019	765,000	791,775
AMC Networks, Inc., 144A, 7.75%, 7/15/2021	80,000	87,000
American Achievement Corp., 144A, 10.875%, 4/15/2016	260,000	200,200
Asbury Automotive Group, Inc.:		
7.625%, 3/15/2017	590,000	591,475
8.375%, 11/15/2020	460,000	471,500
Avis Budget Car Rental LLC:		
8.25%, 1/15/2019	535,000	530,987
9.625%, 3/15/2018	260,000	269,100
Beazer Homes U.S.A., Inc., 9.125%, 6/15/2018	135,000	92,813
Cablevision Systems Corp.:		
7.75%, 4/15/2018	65,000	68,900
8.0%, 4/15/2020	65,000	69,713
Caesar's Entertainment Operating Co., Inc.:		
10.0%, 12/15/2018	790,000	541,150
11.25%, 6/1/2017	715,000	758,794
12.75%, 4/15/2018	295,000	234,525
CCO Holdings LLC:		
6.5%, 4/30/2021	1,155,000	1,169,437
7.0%, 1/15/2019	120,000	125,100
7.25%, 10/30/2017	520,000	547,950
7.375%, 6/1/2020	50,000	52,750
7.875%, 4/30/2018	225,000	239,906
8.125%, 4/30/2020	150,000	164,250
Cequel Communications Holdings I LLC, 144A, 8.625%, 11/15/2017	1,495,000	1,584,700
Clear Channel Communications, Inc., 9.0%, 3/1/2021	140,000	117,950
Clear Channel Worldwide Holdings, Inc.:		
Series A, 9.25%, 12/15/2017	100,000	107,500
Series B, 9.25%, 12/15/2017	150,000	162,000
CSC Holdings LLC, 144A, 6.75%, 11/15/2021	1,400,000	1,473,500
Cumulus Media, Inc., 144A, 7.75%, 5/1/2019 (b)	135,000	119,813
DineEquity, Inc., 9.5%, 10/30/2018	385,000	413,394
DISH DBS Corp.:		
6.75%, 6/1/2021	50,000	53,875
7.125%, 2/1/2016	465,000	501,037
7.875%, 9/1/2019	270,000	305,100
EH Holding Corp., 144A, 7.625%, 6/15/2021	230,000	241,500
Fontainebleau Las Vegas Holdings LLC, 144A, 11.0%, 6/15/2015*	490,000	306
Gannett Co., Inc., 9.375%, 11/15/2017	295,000	320,075
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015	505,000	510,050
Hertz Corp.:		
6.75%, 4/15/2019	660,000	661,650
7.5%, 10/15/2018	905,000	945,725
Kabel BW Erste Beteiligungs GmbH, 144A, 7.5%, 3/15/2019	435,000	456,750

		Principal Amount ($)(a)	Value ($)
Lear Corp.:			
7.875%, 3/15/2018		235,000	254,388
8.125%, 3/15/2020		230,000	253,000
Lions Gate Entertainment, Inc., 144A, 10.25%, 11/1/2016		540,000	542,700
Macy's Retail Holdings, Inc., 8.125%, 7/15/2015		85,000	98,138
Mediacom Broadband LLC, 8.5%, 10/15/2015		635,000	654,050
Mediacom LLC, 9.125%, 8/15/2019		560,000	594,300
MGM Resorts International:			
7.5%, 6/1/2016		205,000	196,288
7.625%, 1/15/2017		560,000	533,400
9.0%, 3/15/2020		145,000	160,588
10.0%, 11/1/2016		225,000	236,250
11.125%, 11/15/2017		235,000	267,900
Michaels Stores, Inc., 13.0%, 11/01/2016		150,000	160,110
Norcraft Companies LP, 10.5%, 12/15/2015		1,260,000	1,174,950
Palace Entertainment Holdings LLC, 144A, 8.875%, 4/15/2017		435,000	431,737
Penske Automotive Group, Inc., 7.75%, 12/15/2016		1,085,000	1,112,125
PETCO Animal Supplies, Inc., 144A, 9.25%, 12/1/2018		315,000	337,838
PVH Corp., 7.375%, 5/15/2020		160,000	173,600
Regal Entertainment Group, 9.125%, 8/15/2018		180,000	193,050
Sabre Holdings Corp., 8.35%, 3/15/2016		305,000	233,325
Seminole Indian Tribe of Florida:			
144A, 7.75%, 10/1/2017		200,000	208,000
144A, 7.804%, 10/1/2020		415,000	404,538
Sirius XM Radio, Inc., 144A, 8.75%, 4/1/2015		340,000	372,300
Sonic Automotive, Inc., Series B, 9.0%, 3/15/2018		565,000	594,662
Standard Pacific Corp.:			
8.375%, 5/15/2018		240,000	228,000
10.75%, 9/15/2016		440,000	462,000
Toys "R" Us, Inc., 7.375%, 10/15/2018		695,000	623,762
Toys "R" Us-Delaware, Inc., 144A, 7.375%, 9/1/2016		200,000	200,500
Travelport LLC:			
5.152%**, 9/1/2014		390,000	191,100
9.0%, 3/1/2016		75,000	41,438
UCI International, Inc., 8.625%, 2/15/2019		120,000	116,400
Unitymedia GmbH, 144A, 9.625%, 12/1/2019	EUR	550,000	734,972
Unitymedia Hessen GmbH & Co., KG, 144A, 8.125%, 12/1/2017		1,110,000	1,172,437
Univision Communications, Inc.:			
144A, 6.875%, 5/15/2019		60,000	57,900
144A, 7.875%, 11/1/2020		140,000	142,100

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		Principal Amount ($)(a)	Value ($)
UPC Holding BV:			
144A, 8.375%, 8/15/2020	EUR	480,000	585,519
144A, 9.75%, 4/15/2018	EUR	425,000	559,682
Valassis Communications, Inc., 6.625%, 2/1/2021		180,000	167,400
Visant Corp., 10.0%, 10/1/2017		460,000	420,900
Visteon Corp., 144A, 6.75%, 4/15/2019		435,000	433,912
Yonkers Racing Corp., 144A, 11.375%, 7/15/2016		335,000	345,050
			31,235,184
Consumer Staples 3.5%			
American Rock Salt Co., LLC, 144A, 8.25%, 5/1/2018		340,000	326,400
B&G Foods, Inc., 7.625%, 1/15/2018		230,000	244,375
Del Monte Corp., 7.625%, 2/15/2019		410,000	393,600
Dole Food Co., Inc., 144A, 8.0%, 10/1/2016		215,000	224,138
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020		555,000	491,175
NBTY, Inc., 9.0%, 10/1/2018		190,000	209,000
Rite Aid Corp.:			
7.5%, 3/1/2017		40,000	39,950
8.0%, 8/15/2020		445,000	491,725
10.25%, 10/15/2019		230,000	253,575
Smithfield Foods, Inc., 7.75%, 7/1/2017		1,880,000	2,058,600
Stater Bros. Holdings, Inc., 7.375%, 11/15/2018		180,000	189,900
SUPERVALU, Inc., 8.0%, 5/1/2016 (b)		210,000	216,825
Tops Holding Corp., 10.125%, 10/15/2015		330,000	344,850
U.S. Foodservice, 144A, 8.5%, 6/30/2019		400,000	387,000
			5,871,113
Energy 10.6%			
Alpha Natural Resources, Inc., 6.0%, 6/1/2019		345,000	334,650
Arch Coal, Inc., 7.25%, 10/1/2020		110,000	112,475
Berry Petroleum Co., 6.75%, 11/1/2020		535,000	540,350
Bill Barrett Corp., 7.625%, 10/1/2019		55,000	57,475
BreitBurn Energy Partners LP, 8.625%, 10/15/2020		300,000	313,875
Bristow Group, Inc., 7.5%, 9/15/2017		485,000	504,400
Chaparral Energy, Inc.:			
8.25%, 9/1/2021		410,000	415,125
8.875%, 2/1/2017		250,000	258,750
Chesapeake Oilfield Operating LLC, 144A, 6.625%, 11/15/2019		150,000	156,000
Cloud Peak Energy Resources LLC:			
8.25%, 12/15/2017		145,000	154,425
8.5%, 12/15/2019		150,000	162,000
CONSOL Energy, Inc.:			
144A, 6.375%, 3/1/2021		90,000	90,900
8.0%, 4/1/2017		655,000	717,225
8.25%, 4/1/2020		250,000	276,250

	Principal Amount ($)(a)	Value ($)
Continental Resources, Inc.:		
7.125%, 4/1/2021	175,000	189,875
7.375%, 10/1/2020	195,000	212,550
8.25%, 10/1/2019	105,000	115,500
Crestwood Midstream Partners LP, 144A, 7.75%, 4/1/2019	920,000	894,700
Crosstex Energy LP, 8.875%, 2/15/2018	365,000	398,762
Dresser-Rand Group, Inc., 144A, 6.5%, 5/1/2021	420,000	429,450
Eagle Rock Energy Partners LP, 144A, 8.375%, 6/1/2019	535,000	535,000
Energy Transfer Equity LP, 7.5%, 10/15/2020	215,000	234,888
Forest Oil Corp., 7.25%, 6/15/2019	580,000	591,600
Frontier Oil Corp., 6.875%, 11/15/2018	315,000	322,875
Genesis Energy LP, 7.875%, 12/15/2018	230,000	230,000
Global Geophysical Services, Inc., 10.5%, 5/1/2017	775,000	728,500
Harvest Operations Corp., 144A, 6.875%, 10/1/2017	140,000	144,900
Holly Energy Partners LP, 8.25%, 3/15/2018	330,000	346,500
HollyFrontier Corp., 9.875%, 6/15/2017	545,000	602,225
Kodiak Oil & Gas Corp., 144A, 8.125%, 12/1/2019	165,000	170,981
Linn Energy LLC:		
144A, 6.5%, 5/15/2019	285,000	282,862
7.75%, 2/1/2021	335,000	348,400
MEG Energy Corp., 144A, 6.5%, 3/15/2021	235,000	240,287
Murray Energy Corp., 144A, 10.25%, 10/15/2015	170,000	168,725
Newfield Exploration Co., 7.125%, 5/15/2018	270,000	288,225
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	175,000	173,688
7.25%, 2/1/2019	435,000	450,225
Offshore Group Investments Ltd., 11.5%, 8/1/2015	305,000	329,781
Peabody Energy Corp.:		
144A, 6.0%, 11/15/2018	145,000	147,900
144A, 6.25%, 11/15/2021	165,000	170,775
Plains Exploration & Production Co.:		
6.75%, 2/1/2022	430,000	450,425
7.625%, 6/1/2018	320,000	339,200
Regency Energy Partners LP, 6.875%, 12/1/2018	205,000	217,813
SandRidge Energy, Inc., 7.5%, 3/15/2021	300,000	297,750
SESI LLC, 6.375%, 5/1/2019	235,000	239,113
Stone Energy Corp.:		
6.75%, 12/15/2014	590,000	581,150
8.625%, 2/1/2017	125,000	127,500
Swift Energy Co., 144A, 7.875%, 3/1/2022	435,000	429,562
Venoco, Inc., 8.875%, 2/15/2019	590,000	531,000
WPX Energy, Inc.:		
144A, 5.25%, 1/15/2017	960,000	964,800
144A, 6.0%, 1/15/2022	705,000	721,744
Xinergy Corp., 144A, 9.25%, 5/15/2019	335,000	283,075
		18,026,206

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		Principal Amount ($)(a)	Value ($)
Financials 13.6%			
Abengoa Finance SAU, 144A, 8.875%, 11/1/2017		775,000	775,000
Algoma Acquisition Corp., 144A, 9.875%, 6/15/2015		450,000	387,000
Ally Financial, Inc.:			
8.0%, 3/15/2020		340,000	348,500
8.0%, 11/1/2031		340,000	328,100
Antero Resources Finance Corp.:			
144A, 7.25%, 8/1/2019		285,000	292,125
9.375%, 12/1/2017		390,000	421,200
Ashton Woods U.S.A. LLC, 144A, Step-up Coupon, 0% to 6/30/2012, 11.0% to 6/30/2015		712,400	541,424
AWAS Aviation Capital Ltd., 144A, 7.0%, 10/17/2016		542,400	542,400
Calpine Construction Finance Co., LP, 144A, 8.0%, 6/1/2016		570,000	615,600
CIT Group, Inc.:			
7.0%, 5/1/2015		195	195
144A, 7.0%, 5/4/2015		623,000	623,779
144A, 7.0%, 5/2/2017		1,785,000	1,782,769
DuPont Fabros Technology LP, (REIT), 8.5%, 12/15/2017		435,000	465,450
E*TRADE Financial Corp.:			
6.75%, 6/1/2016		570,000	552,900
12.5%, 11/30/2017		1,212,000	1,369,560
Felcor Lodging LP, (REIT), 6.75%, 6/1/2019		410,000	393,600
Ford Motor Credit Co., LLC:			
5.875%, 8/2/2021		300,000	312,662
8.125%, 1/15/2020		100,000	117,707
Fresenius U.S. Finance II, Inc., 144A, 9.0%, 7/15/2015		420,000	470,925
Hellas Telecommunications Finance SCA, 144A, 8.985%**, 7/15/2015 (PIK)*	EUR	322,107	250
Hexion U.S. Finance Corp., 8.875%, 2/1/2018		2,000,000	1,875,000
International Lease Finance Corp.:			
Series R, 5.65%, 6/1/2014		340,000	324,700
5.75%, 5/15/2016		105,000	97,392
6.25%, 5/15/2019		270,000	249,423
8.625%, 9/15/2015		235,000	240,875
8.75%, 3/15/2017		370,000	381,100
Level 3 Escrow, Inc., 144A, 8.125%, 7/1/2019		670,000	659,950
MPT Operating Partnership LP, (REIT), 6.875%, 5/1/2021		295,000	292,419
National Money Mart Co., 10.375%, 12/15/2016		790,000	843,325
Navios Maritime Acquisition Corp., 8.625%, 11/1/2017		150,000	108,750
NII Capital Corp., 7.625%, 4/1/2021		395,000	392,038
Nuveen Investments, Inc.:			
10.5%, 11/15/2015		605,000	600,462
144A, 10.5%, 11/15/2015		525,000	515,812
OMEGA Healthcare Investors, Inc., (REIT), 6.75%, 10/15/2022		60,000	60,300
Pinnacle Foods Finance LLC:			
8.25%, 9/1/2017		425,000	442,000
9.25%, 4/1/2015		695,000	713,244
Reynolds Group Issuer, Inc.:			
144A, 6.875%, 2/15/2021		540,000	537,300
144A, 7.125%, 4/15/2019		415,000	422,263
144A, 8.25%, 2/15/2021		225,000	199,125
144A, 8.75%, 10/15/2016		550,000	578,875
144A, 9.0%, 4/15/2019		275,000	261,250
144A, 9.25%, 5/15/2018		455,000	435,663
Susser Holdings LLC, 8.5%, 5/15/2016		175,000	188,781
Tomkins LLC, 9.0%, 10/1/2018		207,000	229,511
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020		185,000	182,225
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021		230,000	232,875
Virgin Media Finance PLC, Series 1, 9.5%, 8/15/2016		1,135,000	1,274,037
Wind Acquisition Finance SA, 144A, 7.25%, 2/15/2018		400,000	364,000
			23,043,841
Health Care 2.8%			
Aviv Healthcare Properties LP, 7.75%, 2/15/2019		235,000	230,300
HCA, Inc.:			
6.5%, 2/15/2020		890,000	923,375
7.5%, 2/15/2022		605,000	618,612
Mylan, Inc., 144A, 7.875%, 7/15/2020		95,000	104,856
STHI Holding Corp., 144A, 8.0%, 3/15/2018		345,000	354,488
Tenet Healthcare Corp., 144A, 6.25%, 11/1/2018		1,805,000	1,836,587
Vanguard Health Holding Co. II, LLC, 8.0%, 2/1/2018		245,000	243,163
Warner Chilcott Co., LLC, 7.75%, 9/15/2018		420,000	428,925
			4,740,306
Industrials 8.7%			
Accuride Corp., 9.5%, 8/1/2018		405,000	390,825
Actuant Corp., 6.875%, 6/15/2017		300,000	309,000
Aguila 3 SA, 144A, 7.875%, 1/31/2018		310,000	300,700
ARAMARK Holdings Corp., 144A, 8.625%, 5/1/2016 (PIK)		105,000	108,150
Armored Autogroup, Inc., 144A, 9.25%, 11/1/2018		610,000	471,225
B-Corp Merger Sub, Inc., 144A, 8.25%, 6/1/2019		335,000	314,900
BE Aerospace, Inc.:			
6.875%, 10/1/2020		210,000	228,900
8.5%, 7/1/2018		300,000	328,500
Belden, Inc., 7.0%, 3/15/2017		420,000	419,475
Boart Longyear Management Pty Ltd., 144A, 7.0%, 4/1/2021		190,000	192,850
Briggs & Stratton Corp., 6.875%, 12/15/2020		195,000	199,875
Casella Waste Systems, Inc., 7.75%, 2/15/2019		415,000	405,663
Cenveo Corp., 8.875%, 2/1/2018		1,055,000	920,487
CHC Helicopter SA, 144A, 9.25%, 10/15/2020		950,000	855,000

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		Principal Amount ($)(a)	Value ($)
Congoleum Corp., 9.0%, 12/31/2017 (PIK)		417,780	242,312
Delta Air Lines, Inc., 144A, 9.5%, 9/15/2014		87,000	89,610
Deluxe Corp., 144A, 7.0%, 3/15/2019		180,000	175,050
Ducommun, Inc., 144A, 9.75%, 7/15/2018		305,000	309,575
DynCorp International, Inc., 10.375%, 7/1/2017		490,000	426,300
Florida East Coast Railway Corp., 8.125%, 2/1/2017		225,000	222,188
FTI Consulting, Inc., 6.75%, 10/1/2020		195,000	201,338
Garda World Security Corp., 144A, 9.75%, 3/15/2017		375,000	378,750
H&E Equipment Services, Inc., 8.375%, 7/15/2016		615,000	628,837
Heckler & Koch GmbH, 144A, 9.5%, 5/15/2018	EUR	375,000	308,193
Huntington Ingalls Industries, Inc.:			
144A, 6.875%, 3/15/2018		180,000	176,400
144A, 7.125%, 3/15/2021		60,000	58,800
Interline Brands, Inc., 7.0%, 11/15/2018		295,000	305,325
Meritor, Inc., 8.125%, 9/15/2015		280,000	250,600
Navios Maritime Holdings, Inc., 8.125%, 2/15/2019		760,000	566,200
Navios South American Logistics, Inc., 144A, 9.25%, 4/15/2019		295,000	236,000
Nortek, Inc., 144A, 8.5%, 4/15/2021		720,000	608,400
Ply Gem Industries, Inc., 13.125%, 7/15/2014		515,000	455,775
RailAmerica, Inc., 9.25%, 7/1/2017		266,000	290,605
RBS Global, Inc. & Rexnord Corp.:			
8.5%, 5/1/2018		520,000	551,200
11.75%, 8/1/2016 (b)		120,000	126,000
Rearden G Holdings EINS GmbH, 144A, 7.875%, 3/30/2020		135,000	134,663
Sitel LLC, 11.5%, 4/1/2018		565,000	416,687
Spirit AeroSystems, Inc.:			
6.75%, 12/15/2020		205,000	214,225
7.5%, 10/1/2017		215,000	233,275
SPX Corp., 6.875%, 9/1/2017		130,000	140,400
Titan International, Inc., 7.875%, 10/1/2017		945,000	982,800
Triumph Group, Inc., 8.0%, 11/15/2017		75,000	79,875
Tutor Perini Corp., 7.625%, 11/1/2018		325,000	307,125
United Rentals North America, Inc., 10.875%, 6/15/2016		225,000	249,750
			14,811,808

Information Technology 4.7%

		Principal Amount ($)(a)	Value ($)
Allen Systems Group, Inc., 144A, 10.5%, 11/15/2016		210,000	182,700
Amkor Technology, Inc.:			
6.625%, 6/1/2021		50,000	48,125
7.375%, 5/1/2018		250,000	255,625
Aspect Software, Inc., 10.625%, 5/15/2017		350,000	363,125
Avaya, Inc., 144A, 7.0%, 4/1/2019		830,000	805,100
CDW LLC:			
8.5%, 4/1/2019		895,000	901,713
11.0%, 10/12/2015		52,000	54,600
CommScope, Inc., 144A, 8.25%, 1/15/2019		485,000	485,000
eAccess Ltd., 144A, 8.25%, 4/1/2018		335,000	318,250
Equinix, Inc.:			
7.0%, 7/15/2021		215,000	226,825
8.125%, 3/1/2018		120,000	130,800
Fidelity National Information Services, Inc.:			
7.625%, 7/15/2017		95,000	102,838
144A, 7.625%, 7/15/2017		50,000	53,875
First Data Corp.:			
144A, 7.375%, 6/15/2019		170,000	159,800
144A, 8.25%, 1/15/2021		300,000	268,500
144A, 8.875%, 8/15/2020		495,000	495,000
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018		990,000	1,058,062
Jabil Circuit, Inc., 7.75%, 7/15/2016		145,000	161,675
MasTec, Inc., 7.625%, 2/1/2017		610,000	634,400
Sanmina-SCI Corp., 144A, 7.0%, 5/15/2019		245,000	238,875
Seagate HDD Cayman, 144A, 7.0%, 11/1/2021		290,000	297,250
Sensata Technologies BV, 144A, 6.5%, 5/15/2019		290,000	286,375
SunGard Data Systems, Inc., 10.625%, 5/15/2015		365,000	388,725
			7,917,238

Materials 10.5%

		Principal Amount ($)(a)	Value ($)
Aleris International, Inc., 7.625%, 2/15/2018		220,000	214,500
APERAM:			
144A, 7.375%, 4/1/2016		215,000	183,825
144A, 7.75%, 4/1/2018		260,000	215,800
Appleton Papers, Inc., 11.25%, 12/15/2015		237,000	213,300
Berry Plastics Corp.:			
8.25%, 11/15/2015		660,000	702,900
9.5%, 5/15/2018		390,000	391,950
9.75%, 1/15/2021		460,000	458,850
Beverage Packaging Holdings Luxembourg II SA, 144A, 8.0%, 12/15/2016	EUR	225,000	247,525
Boise Paper Holdings LLC, 8.0%, 4/1/2020		170,000	179,775
BWAY Parent Co., Inc., 10.125%, 11/1/2015 (PIK)		256,058	248,376
Celanese U.S. Holdings LLC, 6.625%, 10/15/2018		200,000	212,500
China Lumena New Materials Corp., 144A, 12.0%, 10/27/2014		1,120,000	966,000
Clearwater Paper Corp., 7.125%, 11/1/2018		390,000	405,600
Clondalkin Acquisition BV, 144A, 2.546%**, 12/15/2013		265,000	246,450

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		Principal Amount ($)(a)	Value ($)
Crown Americas LLC, 6.25%, 2/1/2021		50,000	52,250
Essar Steel Algoma, Inc., 144A, 9.375%, 3/15/2015		1,410,000	1,367,700
Exopack Holding Corp., 144A, 10.0%, 6/1/2018		230,000	230,000
FMG Resources (August 2006) Pty Ltd.:			
144A, 7.0%, 11/1/2015		140,000	141,400
144A, 8.25%, 11/1/2019		545,000	554,538
GEO Specialty Chemicals, Inc.:			
144A, 7.5%, 3/31/2015 (PIK)		1,297,793	1,140,760
10.0%, 3/31/2015		1,277,440	1,207,181
Graphic Packaging International, Inc.:			
7.875%, 10/1/2018		70,000	74,550
9.5%, 6/15/2017		810,000	886,950
Huntsman International LLC:			
8.625%, 3/15/2020		330,000	349,800
8.625%, 3/15/2021		335,000	355,100
JMC Steel Group, 144A, 8.25%, 3/15/2018		350,000	341,250
Koppers, Inc., 7.875%, 12/1/2019		440,000	466,400
Longview Fibre Paper & Packaging, Inc., 144A, 8.0%, 6/1/2016		335,000	335,000
Momentive Performance Materials, Inc.:			
9.0%, 1/15/2021		105,000	79,800
9.5%, 1/15/2021	EUR	385,000	363,749
NewMarket Corp., 7.125%, 12/15/2016		1,005,000	1,027,612
Novelis, Inc., 8.375%, 12/15/2017		85,000	90,313
OI European Group BV, 144A, 6.75%, 9/15/2020	EUR	130,000	166,570
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016		535,000	535,000
Phibro Animal Health Corp., 144A, 9.25%, 7/1/2018		70,000	60,725
Polymer Group, Inc., 144A, 7.75%, 2/1/2019		300,000	310,500
Rain CII Carbon LLC, 144A, 8.0%, 12/1/2018		270,000	270,675
Sealed Air Corp.:			
144A, 8.125%, 9/15/2019		150,000	164,250
144A, 8.375%, 9/15/2021		150,000	165,750
Silgan Holdings, Inc., 7.25%, 8/15/2016		190,000	202,825
Solo Cup Co., 10.5%, 11/1/2013		210,000	213,150
SunCoke Energy, Inc., 144A, 7.625%, 8/1/2019		170,000	170,000
United States Steel Corp., 7.375%, 4/1/2020 (b)		480,000	468,000
Verso Paper Holdings LLC, 8.75%, 2/1/2019		130,000	79,300
Viskase Companies, Inc., 144A, 9.875%, 1/15/2018		940,000	951,750
Wolverine Tube, Inc., 6.0%, 6/28/2014		158,888	143,460
			17,853,659

		Principal Amount ($)(a)	Value ($)
Telecommunication Services 12.3%			
CenturyLink, Inc., 6.45%, 6/15/2021		985,000	986,814
Cincinnati Bell, Inc.:			
8.25%, 10/15/2017		1,020,000	1,025,100
8.375%, 10/15/2020		1,030,000	1,027,425
8.75%, 3/15/2018		350,000	325,063
CPI International, Inc., 8.0%, 2/15/2018		260,000	216,450
Cricket Communications, Inc.:			
7.75%, 10/15/2020		1,795,000	1,570,625
10.0%, 7/15/2015		380,000	380,000
Digicel Group Ltd.:			
144A, 9.125%, 1/15/2015		195,000	191,100
144A, 10.5%, 4/15/2018		495,000	497,475
Digicel Ltd., 144A, 8.25%, 9/1/2017		1,090,000	1,095,450
ERC Ireland Preferred Equity Ltd., 144A, 8.462%**, 2/15/2017 (PIK)	EUR	694,127	2,246
Frontier Communications Corp.:			
7.875%, 4/15/2015		65,000	65,894
8.25%, 4/15/2017		395,000	403,887
8.5%, 4/15/2020		490,000	501,637
8.75%, 4/15/2022		560,000	554,400
Intelsat Jackson Holdings SA:			
7.25%, 10/15/2020		695,000	705,425
144A, 7.5%, 4/1/2021		855,000	864,619
8.5%, 11/1/2019		580,000	614,800
Intelsat Luxembourg SA:			
11.25%, 2/4/2017		1,450,000	1,402,875
11.5%, 2/4/2017 (PIK)		1,340,625	1,293,703
144A, 11.5%, 2/4/2017 (PIK)		445,000	429,425
MetroPCS Wireless, Inc.:			
6.625%, 11/15/2020		480,000	447,600
7.875%, 9/1/2018		420,000	425,775
Pacnet Ltd., 144A, 9.25%, 11/9/2015		225,000	199,125
Sprint Nextel Corp., 144A, 9.0%, 11/15/2018		1,610,000	1,690,500
Syniverse Holdings, Inc., 9.125%, 1/15/2019		130,000	137,150
Telesat Canada, 11.0%, 11/1/2015		1,545,000	1,658,944
West Corp.:			
7.875%, 1/15/2019		285,000	282,863
8.625%, 10/1/2018		75,000	75,750
Windstream Corp.:			
7.0%, 3/15/2019		430,000	434,300
7.5%, 4/1/2023		335,000	330,813
7.75%, 10/15/2020		180,000	186,075
7.875%, 11/1/2017		495,000	535,837
8.125%, 9/1/2018		180,000	192,825
			20,751,970
Utilities 2.8%			
AES Corp.:			
8.0%, 10/15/2017		415,000	456,500
8.0%, 6/1/2020		525,000	577,500
Calpine Corp.:			
144A, 7.5%, 2/15/2021		485,000	518,950
144A, 7.875%, 7/31/2020		560,000	603,400
Edison Mission Energy, 7.0%, 5/15/2017		1,570,000	1,020,500

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

	Principal Amount ($)(a)	Value ($)
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024	1,110,000	493,950
Energy Future Intermediate Holding Co. LLC, 10.0%, 12/1/2020	125,000	131,874
Ferrellgas LP, 6.5%, 5/1/2021	120,000	105,600
NRG Energy, Inc.:		
7.625%, 1/15/2018	200,000	200,000
8.25%, 9/1/2020	220,000	221,100
Texas Competitive Electric Holdings Co., LLC:		
Series A, 10.25%, 11/1/2015	275,000	97,625
144A, 11.5%, 10/1/2020	360,000	305,550
		4,732,549
Total Corporate Bonds (Cost $152,338,736)		**148,983,874**

Government & Agency Obligation 0.6%

U.S. Treasury Obligation

U.S. Treasury Note, 0.375%, 10/31/2012 (Cost $1,001,767)	1,000,000	**1,001,992**

Loan Participations and Assignments 0.6%

Senior Loans**

Alliance Mortgage Cycle Loan, Term Loan A, 9.5%, 6/1/2010*	700,000	0
Buffets, Inc., Letter of Credit, First Lien, 11.619%, 4/22/2015 (PIK)	101,894	44,833
Roundy's Supermarkets, Inc., Second Lien Term Loan, 10.0%, 4/18/2016	325,000	326,016
Tribune Co., Term Loan B, LIBOR plus 3.0%, 6/4/2014*	1,009,426	593,038
Total Loan Participations and Assignments (Cost $2,020,630)		**963,887**

Convertible Bonds 0.4%

Consumer Discretionary

Group 1 Automotive, Inc., 144A, 3.0%, 3/15/2020	375,000	562,969
Sonic Automotive, Inc., 5.0%, 10/1/2029	155,000	205,181
Total Convertible Bonds (Cost $530,268)		**768,150**

Preferred Security 0.5%

Materials

Hercules, Inc., 6.5%, 6/30/2029 (Cost $742,190)	1,135,000	**868,275**

	Units	Value ($)

Other Investments 0.0%

Consumer Discretionary

AOT Bedding Super Holdings LLC* (Cost $31,000)	31	**31,000**

	Shares	Value ($)

Common Stocks 0.2%

Consumer Discretionary 0.1%

Buffets Restaurants Holdings, Inc.*	18,256	45,640
Postmedia Network Canada Corp.*	8,495	75,465
Trump Entertainment Resorts, Inc.*	45	820
Vertis Holdings, Inc.*	676	372
		122,297

Industrials 0.0%

Congoleum Corp.*	24,000	**0**

Materials 0.1%

GEO Specialty Chemicals, Inc.*	24,225	0
GEO Specialty Chemicals, Inc., 144A*	2,206	0
Wolverine Tube, Inc.*	7,045	176,125
		176,125
Total Common Stocks (Cost $573,020)		**298,422**

Warrants 0.0%

Consumer Discretionary 0.0%

Reader's Digest Association, Inc., Expiration Date 2/19/2014*	1,115	**190**

Materials 0.0%

Hercules Trust II, Expiration Date 3/31/2029*	1,100	**9,064**
Total Warrants (Cost $244,286)		**9,254**

Securities Lending Collateral 0.4%

Daily Assets Fund Institutional, 0.18% (c) (d) (Cost $635,364)	635,364	**635,364**

Cash Equivalents 7.6%

Central Cash Management Fund, 0.07% (c) (Cost $12,871,123)	12,871,123	**12,871,123**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $170,988,384)†	98.2	**166,431,341**
Other Assets and Liabilities, Net	1.8	**3,091,804**
Net Assets	100.0	**169,523,145**

The following table represents bonds and senior loans that are in default:

Securities	Coupon	Maturity Date	Principal Amount ($)		Acquisition Cost ($)	Value ($)
Alliance Mortgage Cycle Loan*	9.5%	6/1/2010	700,000	USD	700,000	0
Fontainebleau Las Vegas Holdings LLC*	11.0%	6/15/2015	490,000	USD	495,963	306
Hellas Telecommunications Finance SCA*	8.985%	7/15/2015	322,107	EUR	92,199	250
Tribune Co.*	LIBOR plus 3.0%	6/4/2014	1,009,426	USD	905,407	593,038
					2,193,569	**593,594**

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

* Non-income producing security. In the case of a bond or senior loan, generally denotes that the issuer has defaulted on the payment of principal or interest or has filed for bankruptcy.

** Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2011.

† The cost for federal income tax purposes was $174,290,458. At December 31, 2011, net unrealized depreciation for all securities based on tax cost was $7,859,117. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,678,708 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $12,537,825.

(a) Principal amount stated in U.S. 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, 2011 amounted to $612,100, which is 0.4% of net assets.

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

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

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

LIBOR: London Interbank Offered Rate

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

REIT: Real Estate Investment Trust

At December 31, 2011, open credit default swap contracts sold were as follows:

Effective/ Expiration Date	Notional Amount ($) (e)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (f)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
6/21/2010 9/20/2013	1,230,000[1]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	60,266	(37,769)	98,035
6/21/2010 9/20/2013	380,000[2]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	18,619	4,658	13,961
6/21/2010 9/20/2015	175,000[3]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	9,393	(16,625)	26,018
6/21/2010 9/20/2015	320,000[4]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	17,174	(27,750)	44,924
6/21/2010 9/20/2015	100,000[1]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	5,367	(6,896)	12,263
6/21/2010 9/20/2015	560,000[5]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	30,057	(9,982)	40,039
6/20/2011 9/20/2016	575,000[5]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	25,035	50,194	(25,159)
3/21/2011 6/20/2016	1,085,000[6]	5.0%	Ford Motor Credit Co., LLC, 7.25%, 10/25/2011, NR	88,701	116,277	(27,576)
6/20/2011 9/20/2016	440,000[6]	5.0%	Forest Oil Corp., 7.25%, 6/15/2019, B+	(2,503)	15,483	(17,986)
9/20/2011 12/20/2016	165,000[1]	5.0%	Forest Oil Corp.,+ 7.25%, 6/15/2019, B+	(1,893)	(3,203)	1,310
9/20/2011 12/20/2016	250,000[6]	5.0%	Forest Oil Corp., 7.25%, 6/15/2019, B+	(2,867)	(4,853)	1,986
6/20/2011 9/20/2015	1,145,000[1]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	5,710	54,258	(48,548)
3/21/2011 6/20/2016	610,000[3]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	(8,885)	20,412	(29,297)
Total net unrealized appreciation						**89,970**

(e) The maximum potential amount of future undiscounted payments that the Fund could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Fund for the same referenced debt obligation.

(f) The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings.

Counterparties:

1 The Goldman Sachs & Co.

2 Citigroup, Inc.

3 JPMorgan Chase Securities, Inc.

4 Credit Suisse

5 Bank of America

6 Barclays Bank PLC

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

At December 31, 2011, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
EUR	2,293,200	USD	3,001,139	1/25/2012	**32,668**	JPMorgan Chase Securities, Inc.

Currency Abbreviations			
EUR	Euro	USD	United States Dollar

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (g)				
Corporate Bonds	$ —	$ 146,250,161	$ 2,733,713	$ 148,983,874
Government & Agency Obligation	—	1,001,992	—	1,001,992
Loan Participations and Assignments	—	963,887	0	963,887
Convertible Bonds	—	768,150	—	768,150
Preferred Securities	—	868,275	—	868,275
Other Investments	—	—	31,000	31,000
Common Stocks (g)	121,105	—	177,317	298,422
Warrants (g)	—	—	9,254	9,254
Short-Term Investments	13,506,487	—	—	13,506,487
Derivatives (h)	—	271,204	—	271,204
Total	**$ 13,627,592**	**$ 150,123,669**	**$ 2,951,284**	**$ 166,702,545**
Liabilities				
Derivatives (h)	$ —	$ (148,566)	$ —	$ (148,566)
Total	**$ —**	**$ (148,566)**	**$ —**	**$ (148,566)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(g) See Investment Portfolio for additional detailed categorizations.

(h) Derivatives include unrealized appreciation (depreciation) on credit default swap contracts and forward foreign currency exchange contracts.

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Corporate Bonds	Loan Participations and Assignments	Other Investments	Common Stocks	Warrants	Total
Balance as of December 31, 2010	$ 2,784,439	$ 0	$ 31,000	$ 23,288	$ 12,547	**$ 2,851,274**
Realized gains (loss)	(2,498,559)	—	—	(20)	—	**(2,498,579)**
Change in unrealized appreciation (depreciation)	2,530,430	0	0	(28,297)	(3,293)	**2,498,840**
Amortization premium/discount	26,227	—	—	—	—	**26,227**
Purchases	192,809	—	—	182,346	—	**375,155**
(Sales)	(126,611)	—	—	—	—	**(126,611)**
Transfers into Level 3	—	—	—	—	—	**—**
Transfers (out) of Level 3	(175,022) (i)	—	—	—	—	**(175,022)**
Balance as of December 31, 2011	**$ 2,733,713**	**$ 0**	**$ 31,000**	**$ 177,317**	**$ 9,254**	**$ 2,951,284**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2011	**$ (7,529)**	**$ 0**	**$ 0**	**$ (28,297)**	**$ (3,293)**	**$ (39,119)**

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

(i) The investment was transferred from Level 3 to Level 2 as a result of the availability of a pricing source supported by observable inputs.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $157,481,897) — including $612,100 of securities loaned	$	152,924,854
Investment in Daily Assets Fund Institutional (cost $635,364)*		635,364
Investment in Central Cash Management Fund (cost $12,871,123)		12,871,123
Total investments in securities, at value (cost $170,988,384)		166,431,341
Cash		29,720
Foreign currency, at value (cost $95)		94
Receivable for investments sold		807,152
Receivable for Fund shares sold		52
Interest receivable		3,032,453
Unrealized appreciation on swap contracts		238,536
Unrealized appreciation on forward foreign currency exchange contracts		32,668
Upfront payments paid on swap contracts		261,282
Other assets		2,632
Total assets		170,835,930

Liabilities		
Payable upon return of securities loaned		635,364
Payable for Fund shares redeemed		229,008
Unrealized depreciation on swap contracts		148,566
Upfront payments received on swap contracts		107,078
Accrued management fee		68,275
Other accrued expenses and payables		124,494
Total liabilities		1,312,785
Net assets, at value	**$**	**169,523,145**

Net Assets Consist of		
Undistributed net investment income		13,303,364
Net unrealized appreciation (depreciation) on:		
Investments		(4,557,043)
Swap contracts		89,970
Foreign currency		29,242
Accumulated net realized gain (loss)		(45,494,205)
Paid-in capital		206,151,817
Net assets, at value	**$**	**169,523,145**
Class A		
Net Asset Value, offering and redemption price per share ($169,438,460 ÷ 25,818,935 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.56**
Class B		
Net Asset Value, offering and redemption price per share ($84,685 ÷ 12,847 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**6.59**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Interest	$	14,683,629
Dividends		62,983
Income distributions — Central Cash Management Fund		7,249
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		14,522
Total income		14,768,383
Expenses:		
Management fee		888,124
Administration fee		177,625
Services to shareholders		4,413
Distribution service fee (Class B)		302
Custodian fee		23,106
Audit and tax fees		79,070
Legal fees		9,029
Reports to shareholders		38,047
Trustees' fees and expenses		6,615
Other		52,405
Total expenses		1,278,736
Net investment income (loss)		**13,489,647**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(3,499,496)
Swap contracts		(4,580)
Foreign currency		(282,556)
		(3,786,632)
Change in net unrealized appreciation (depreciation) on:		
Investments		(2,193,276)
Swap contracts		(296,286)
Foreign currency		87,590
		(2,401,972)
Net gain (loss)		**(6,188,604)**
Net increase (decrease) in net assets resulting from operations	**$**	**7,301,043**

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, 2011	2010
Operations:		
Net investment income	$ 13,489,647	$ 14,943,059
Net realized gain (loss)	(3,786,632)	2,920,800
Change in net unrealized appreciation (depreciation)	(2,401,972)	6,951,753
Net increase (decrease) in net assets resulting from operations	7,301,043	24,815,612
Distributions to shareholders from:		
Net investment income:		
Class A	(16,387,608)	(15,325,538)
Class B	(11,864)	(11,524)
Total distributions	(16,399,472)	(15,337,062)
Fund share transactions:		
Class A		
Proceeds from shares sold	46,414,241	73,550,670
Reinvestment of distributions	16,387,608	15,325,538
Payments for shares redeemed	(79,145,753)	(100,347,223)
Net increase (decrease) in net assets from Class A share transactions	(16,343,904)	(11,471,015)
Class B		
Proceeds from shares sold	9,003	2,173
Reinvestment of distributions	11,864	11,524
Payments for shares redeemed	(73,315)	(27,277)
Net increase (decrease) in net assets from Class B share transactions	(52,448)	(13,580)
Increase (decrease) in net assets	(25,494,781)	(2,006,045)
Net assets at beginning of period	195,017,926	197,023,971
Net assets at end of period (including undistributed net investment income of $13,303,364 and $15,993,708, respectively)	**$ 169,523,145**	**$ 195,017,926**

Other Information		
Class A		
Shares outstanding at beginning of period	28,235,548	30,057,940
Shares sold	7,106,488	11,151,687
Shares issued to shareholders in reinvestment of distributions	2,479,214	2,379,742
Shares redeemed	(12,002,315)	(15,353,821)
Net increase (decrease) in Class A shares	(2,416,613)	(1,822,392)
Shares outstanding at end of period	**25,818,935**	**28,235,548**
Class B		
Shares outstanding at beginning of period	20,802	22,888
Shares sold	1,284	319
Shares issued to shareholders in reinvestment of distributions	1,784	1,778
Shares redeemed	(11,023)	(4,183)
Net increase (decrease) in Class B shares	(7,955)	(2,086)
Shares outstanding at end of period	**12,847**	**20,802**

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

Financial Highlights

Class A

	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.90**	**$ 6.55**	**$ 5.30**	**$ 7.81**	**$ 8.38**
Income (loss) from investment operations:					
Net investment income[a]	.51	.52	.51	.57	.63
Net realized and unrealized gain (loss)	(.24)	.36	1.40	(2.29)	(.54)
Total from investment operations	.27	.88	1.91	(1.72)	.09
Less distributions from:					
Net investment income	(.61)	(.53)	(.66)	(.79)	(.66)
Net asset value, end of period	**$ 6.56**	**$ 6.90**	**$ 6.55**	**$ 5.30**	**$ 7.81**
Total Return (%)	3.84	14.00	39.99	(23.94)[b]	.96
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	169	195	197	154	248
Ratio of expenses before expense reductions (%)	.72	.72	.67	.80	.69
Ratio of expenses after expense reductions (%)	.72	.72	.67	.79	.69
Ratio of net investment income (%)	7.59	7.90	8.81	8.42	7.84
Portfolio turnover rate (%)	59	93	66	38	61

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, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.93**	**$ 6.58**	**$ 5.31**	**$ 7.81**	**$ 8.38**
Income (loss) from investment operations:					
Net investment income[a]	.49	.50	.49	.53	.60
Net realized and unrealized gain (loss)	(.24)	.36	1.42	(2.27)	(.54)
Total from investment operations	.25	.86	1.91	(1.74)	.06
Less distributions from:					
Net investment income	(.59)	(.51)	(.64)	(.76)	(.63)
Net asset value, end of period	**$ 6.59**	**$ 6.93**	**$ 6.58**	**$ 5.31**	**$ 7.81**
Total Return (%)	3.57	13.64	39.64	(24.13)[b]	.54
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.1	.1	.2	.1	10
Ratio of expenses before expense reductions (%)	.99	.99	.94	1.25	1.08
Ratio of expenses after expense reductions (%)	.99	.99	.94	1.23	1.08
Ratio of net investment income (%)	7.33	7.63	8.54	7.98	7.45
Portfolio turnover rate (%)	59	93	66	38	61

a Based on average shares outstanding during the period.

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

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to Rule 12b-1 fees under the 1940 Act equal to an annual rate of 0.25% of the average daily net assets of the Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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 and senior loans are valued at prices supplied by independent pricing services approved by the Fund's Board. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from one or more broker-dealers. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. These securities are generally categorized as Level 2.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and are categorized as Level 2.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market

in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Loan Participations and Assignments. Senior loans are portions of loans originated by banks and sold in pieces to investors. These U.S. dollar-denominated fixed and floating rate loans ("Loans") in which the Fund invests are arranged through private negotiations between the borrower and one or more financial institutions ("Lenders"). The Fund invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of loans from third parties ("Assignments"). Participations typically result in the Fund having a contractual relationship only with the Lender, not with the borrower. The Fund has the right to receive payments of principal, interest and any fees to which it is entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Fund generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, nor any rights of set-off against the borrower, and the Fund will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Fund having a direct contractual relationship with the borrower, and the Fund may enforce compliance by the borrower with the terms of the loan agreement. Senior loans held by the Fund are generally in the form of Assignments, but the Fund may also invest in Participations. All senior loans involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $39,234,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2014 ($3,844,000), December 31, 2015 ($858,000), December 31, 2016 ($17,300,000) and December 31, 2017 ($17,232,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2011 through December 31, 2011, the Fund elects to defer qualified late year losses of approximately $2,439,000 of net realized long-term capital losses and $519,000 of net realized short-term capital losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 13,393,058
Capital loss carryforwards	$ (39,234,000)
Unrealized appreciation (depreciation) on investments	$ (7,859,117)

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 16,399,472	$ 15,337,062

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund, with the exception of securities in default of principal.

B. Derivative Instruments

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. For the year ended December 31, 2011, the Fund bought or sold credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer, or to economically hedge the risk of default on Fund securities. As a seller in the credit default swap contract, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Fund 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 Fund with the occurrence of a credit event. When the Fund 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 Fund.

The value of the credit default swap is adjusted daily and the change in value, if any, is recorded daily as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Under the terms of the credit default swap contracts, the Fund 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 in 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 in the Statement of Operations.

A summary of the open credit default swap contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the Fund's investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to $280,000, and the investment in credit default swap contracts sold had a total notional value generally indicative of a range from approximately $2,765,000 to $10,765,000.

Forward Foreign Currency Exchange Contracts. A forward foreign currency exchange contract ("forward currency contract") is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. For the year ended December 31, 2011, the Fund entered into forward currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings and to facilitate transactions in foreign currency denominated securities.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the Fund's investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $3,001,000 to $7,198,000. The Fund's investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from $0 to approximately $1,139,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ 238,536	$ 238,536
Foreign Exchange Contracts (b)	32,668	—	32,668
	$ 32,668	**$ 238,536**	**$ 271,204**

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

(a) Unrealized appreciation on swap contracts

(b) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivative	**Swap Contracts**
Credit Contracts (a)	$ (148,566)

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

(a) Unrealized depreciation on swap contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ (4,580)	$ (4,580)
Foreign Exchange Contracts (b)	(247,032)	—	(247,032)
	$ (247,032)	**$ (4,580)**	**$ (251,612)**

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

(a) Net realized gain (loss) from swap contracts

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

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ (296,286)	$ (296,286)
Foreign Exchange Contracts (b)	91,099	—	91,099
	$ 91,099	**$ (296,286)**	**$ (205,187)**

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

(a) Change in net unrealized appreciation (depreciation) on swap contracts

(b) Change in net unrealized appreciation (depreciation) on foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments) aggregated $99,489,512 and $118,096,759, respectively.

D. Related Parties

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

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

First $250 million	.500%
Next $750 million	.470%
Next $1.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.400%
Next $2.5 billion	.380%
Next $2.5 billion	.360%
Over $12.5 billion	.340%

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.50% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $177,625, of which $13,655 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2011
Class A	$ 247	$ 66
Class B	24	5
	$ 271	**$ 71**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2011, the Distribution Service Fee aggregated $302, of which $18 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $15,470, of which $3,054 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Investing in High-Yield Securities

The Fund's performance could be hurt if a security declines in credit quality or goes into default, or if an issuer does not make timely payments of interest or principal. Because the issuers of high-yield debt securities or junk bonds (debt securities rated below the fourth-highest category) may be in uncertain financial health, the prices of their debt securities can be more vulnerable to bad economic news, or even the expectation of bad news, than investment-grade debt securities. Because the Fund may invest in securities not paying current interest or in securities already in default, these risks may be more pronounced.

F. Ownership of the Fund

At December 31, 2011, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 32%, 31% and 29%. One Participating Insurance Company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 100%.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS High Income VIP:

We have audited the accompanying statement of assets and liabilities of DWS High Income VIP (the "Fund"), one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS High Income VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges, 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 998.50	$ 997.00
Expenses Paid per $1,000*	$ 3.63	$ 5.03

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,021.58	$1,020.16
Expenses Paid per $1,000*	$ 3.67	$ 5.09

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

Annualized Expense Ratios	**Class A**	**Class B**
DWS Variable Series II — DWS High Income VIP	.72%	1.00%

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

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

Tax Information

(Unaudited)

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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS High Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS'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, DWS provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 2nd 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 the one-, three- and five-year periods ended December 31, 2010.

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 DWS 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 a 0.10% fee paid to DWS 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, 2010). 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, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2HI-2 (R-025832-1 2/12)

DWS INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Large Cap Value VIP

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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Stocks may decline in value. The fund may lend securities to approved institutions. See the prospectus for details.

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

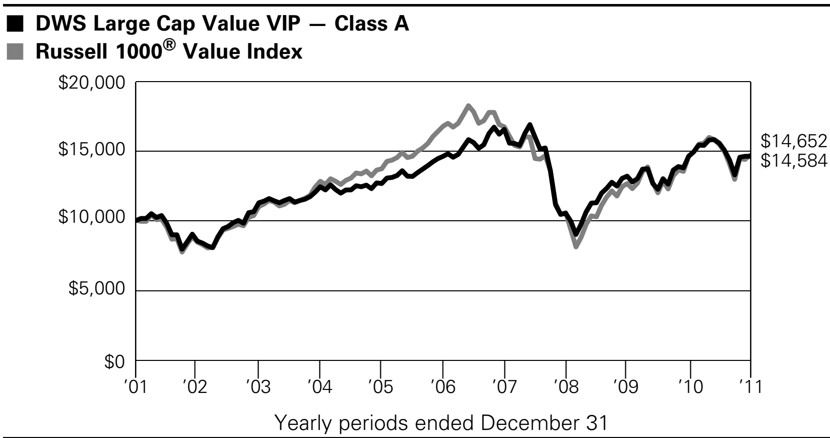
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. While all share classes have the same underlying portfolio, their performance will differ.

The gross expense ratios of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 are 0.82% and 1.11% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in DWS Large Cap Value VIP



The Russell 1000® Value Index is an unmanaged index that consists of those stocks in the Russell 1000 Index with less-than-average growth orientation. Russell 1000® Index is an unmanaged price-only index of the 1,000 largest capitalized companies that are domiciled in the U.S. and whose common stocks are traded.

Index returns do not reflect any fees or expenses and 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	$9,993	$13,878	$9,987	$14,584
	Average annual total return	–0.07%	11.54%	–0.03%	3.85%
Russell 1000 Value Index	Growth of $10,000	$10,039	$13,879	$8,750	$14,652
	Average annual total return	0.39%	11.55%	–2.64%	3.89%

DWS Large Cap Value VIP		1-Year	3-Year	5-Year	Life of Class*
Class B	Growth of $10,000	$9,964	$13,751	$9,824	$14,623
	Average annual total return	–0.36%	11.20%	–0.35%	4.08%
Russell 1000 Value Index	Growth of $10,000	$10,039	$13,879	$8,750	$15,387
	Average annual total return	0.39%	11.55%	–2.64%	4.64%

The growth of $10,000 is cumulative.

* The Fund commenced offering Class B shares on July 1, 2002. Index returns began on June 30, 2002.

Management Summary

December 31, 2011 (Unaudited)

DWS Large Cap Value VIP delivered a total return of –0.07% in 2011 (Class A shares, unadjusted for contract charges), but underperformed the 0.39% return of the benchmark, the Russell 1000® Value Index.[1]

We positioned the Fund in a defensive manner through most of the year. We did not have a great deal of faith in the stock market rally of late 2010/early 2011, so we established above-benchmark weightings in sectors that tend to perform better when the economy and stock prices are not particularly robust, such as health care, telecommunication services, consumer staples and utilities.[2,3] Along the same line, we held below-benchmark weightings in the more volatile and economically sensitive market segments, such as industrials, information technology and financials. This positioning acted as a headwind during the periods in which the market performed very well, but it added quite a bit of value during the third quarter selloff.

In terms of individual security selection, our stock picks outperformed in consumer staples and financials, but lagged in health care, energy and materials. The Fund's leading individual contributors were its overweight positions in H&R Block, Inc. and Marathon Oil Corp., while its primary detractors were Teva Pharmaceutical Industries Ltd. and Lincoln National Corp.

We expect volatility to remain elevated in the year ahead. The market remains supported on one hand by improving economic conditions and strong corporate performance in the United States, but pressured on the other by the ongoing concerns about Europe and China. The good news, for us, is that heightened volatility provides the opportunity to rotate out of more fully valued stocks that have performed well, including select stocks in the utilities and telecommunication services sectors, and into more attractively valued names in the economically sensitive areas of the market, such as financials and industrials. This process of shifting the portfolio from a less defensive stance has been occurring gradually, in a reflection of our measured, long-term approach. Overall, we believe our continued emphasis on undervalued, fundamentally sound large-cap companies remains the most prudent approach at this stage of the cycle.

Thomas Schuessler, PhD.
Lead Portfolio Manager

Volker Dosch
Oliver Pfeil, PhD.
Peter Steffen *(since May 1, 2011)*
Portfolio Managers

1 The Russell 1000 Value Index is an unmanaged index that consists of those stocks in the Russell 1000® Index with less-than-average growth orientation. The Russell 1000 Index is an unmanaged price-only index of the 1,000 largest capitalized companies that are domiciled in the U.S. and whose common stocks are traded. Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

2 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

3 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary **(Unaudited)**

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	94%	98%
Cash Equivalents	5%	2%
Exchange-Traded Fund	1%	—
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/11**	**12/31/10**
Energy	15%	18%
Financials	14%	13%
Health Care	13%	12%
Consumer Staples	13%	12%
Utilities	12%	10%
Materials	10%	5%
Information Technology	7%	8%
Telecommunication Services	6%	9%
Industrials	6%	6%
Consumer Discretionary	4%	7%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2011

	Shares	Value ($)
Common Stocks 93.7%		
Consumer Discretionary 3.5%		
Auto Components 0.6%		
TRW Automotive Holdings Corp.*	70,795	**2,307,917**
Distributors 1.3%		
Genuine Parts Co.	84,601	**5,177,581**
Diversified Consumer Services 1.6%		
H&R Block, Inc.	405,332	**6,619,072**
Consumer Staples 12.4%		
Beverages 1.3%		
PepsiCo, Inc.	76,929	**5,104,239**
Food & Staples Retailing 3.2%		
CVS Caremark Corp.	217,479	8,868,794
Walgreen Co. (a)	112,305	3,712,803
		12,581,597
Food Products 4.5%		
General Mills, Inc.	107,614	4,348,682
Kellogg Co.	92,980	4,701,999
Mead Johnson Nutrition Co.	66,558	4,574,531
Sara Lee Corp.	227,252	4,299,608
		17,924,820
Tobacco 3.4%		
Altria Group, Inc.	291,185	8,633,635
Philip Morris International, Inc.	65,165	5,114,149
		13,747,784
Energy 13.9%		
Energy Equipment & Services 2.0%		
Noble Corp.*	164,937	4,984,396
Transocean Ltd.	72,181	2,771,029
		7,755,425
Oil, Gas & Consumable Fuels 11.9%		
Canadian Natural Resources Ltd.	166,243	6,212,501
Chevron Corp.	70,370	7,487,368
ConocoPhillips	80,740	5,883,524
Marathon Oil Corp.	207,021	6,059,505
Marathon Petroleum Corp.	144,339	4,805,045
Nexen, Inc.	216,661	3,447,076
Occidental Petroleum Corp.	83,041	7,780,942
Suncor Energy, Inc.	208,119	6,000,071
		47,676,032
Financials 13.3%		
Capital Markets 0.7%		
The Goldman Sachs Group, Inc.	32,418	**2,931,560**
Diversified Financial Services 1.7%		
JPMorgan Chase & Co.	199,593	**6,636,467**
Insurance 10.9%		
Assurant, Inc.	159,953	6,567,670
Fidelity National Financial, Inc. "A" (a)	318,854	5,079,344
HCC Insurance Holdings, Inc.	157,937	4,343,267
Lincoln National Corp. (a)	289,280	5,617,818
MetLife, Inc.	154,391	4,813,911
PartnerRe Ltd.	109,127	7,007,045
Prudential Financial, Inc.	107,916	5,408,750
Transatlantic Holdings, Inc.	88,479	4,842,456
		43,680,261

	Shares	Value ($)
Health Care 12.5%		
Health Care Equipment & Supplies 3.1%		
Baxter International, Inc.	141,177	6,985,438
Becton, Dickinson & Co.	70,253	5,249,304
		12,234,742
Health Care Providers & Services 5.6%		
Aetna, Inc.	104,787	4,420,964
Humana, Inc.	65,959	5,778,668
McKesson Corp.	101,500	7,907,865
WellPoint, Inc.	66,236	4,388,135
		22,495,632
Pharmaceuticals 3.8%		
Merck & Co., Inc.	227,863	8,590,435
Teva Pharmaceutical Industries Ltd. (ADR) (a)	161,051	6,500,018
		15,090,453
Industrials 5.5%		
Aerospace & Defense 4.0%		
Northrop Grumman Corp. (a)	74,385	4,350,035
Raytheon Co.	134,514	6,507,787
United Technologies Corp.	68,101	4,977,502
		15,835,324
Machinery 1.5%		
Dover Corp.	106,411	**6,177,159**
Information Technology 6.4%		
Communications Equipment 1.7%		
Cisco Systems, Inc.	370,846	**6,704,896**
Computers & Peripherals 1.0%		
Hewlett-Packard Co.	159,203	**4,101,069**
Semiconductors & Semiconductor Equipment 1.8%		
Intel Corp. (a)	290,848	**7,053,064**
Software 1.9%		
Microsoft Corp.	297,770	**7,730,109**
Materials 8.9%		
Chemicals 4.2%		
Air Products & Chemicals, Inc.	76,306	6,500,508
Potash Corp. of Saskatchewan, Inc.	90,214	3,724,034
Praxair, Inc.	61,379	6,561,415
		16,785,957
Containers & Packaging 1.6%		
Sonoco Products Co.	193,727	**6,385,242**
Metals & Mining 3.1%		
Freeport-McMoRan Copper & Gold, Inc.	87,600	3,222,804
Goldcorp, Inc.	103,278	4,570,051
Newmont Mining Corp.	78,060	4,684,381
		12,477,236
Telecommunication Services 5.9%		
Diversified Telecommunication Services 4.2%		
AT&T, Inc. (a)	266,081	8,046,290
CenturyLink, Inc.	229,917	8,552,912
		16,599,202
Wireless Telecommunication Services 1.7%		
Vodafone Group PLC (ADR) (a)	244,736	**6,859,950**

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

	Shares	Value ($)
Utilities 11.4%		
Electric Utilities 10.4%		
American Electric Power Co., Inc.	159,987	6,609,063
Duke Energy Corp. (a)	279,821	6,156,062
Entergy Corp.	93,878	6,857,788
Exelon Corp.	185,143	8,029,652
FirstEnergy Corp.	217,738	9,645,793
Southern Co.	90,927	4,209,011
		41,507,369
Multi-Utilities 1.0%		
PG&E Corp.	101,829	**4,197,391**
Total Common Stocks (Cost $337,763,501)		**374,377,550**

Exchange-Traded Fund 1.4%

	Shares	Value ($)
SPDR Gold Trust* (Cost $6,100,586)	35,836	**5,446,714**

Securities Lending Collateral 5.9%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.18% (b) (c) (Cost $23,746,925)	23,746,925	**23,746,925**

Cash Equivalents 4.9%

	Shares	Value ($)
Central Cash Management Fund, 0.07% (b) (Cost $19,515,043)	19,515,043	**19,515,043**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $387,126,055)†	105.9	**423,086,232**
Other Assets and Liabilities, Net	(5.9)	**(23,483,822)**
Net Assets	100.0	**399,602,410**

* Non-income producing security.

† The cost for federal income tax purposes was $389,698,469. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $33,387,763. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $58,034,114 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $24,646,351.

(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, 2011 amounted to $22,874,186, which is 5.7% of net assets.

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

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

ADR: American Depositary Receipt

SPDR: Standard & Poor's Depositary Receipt

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (d)	$ 374,377,550	$ —	$ —	$ 374,377,550
Exchange-Traded Funds	5,446,714	—	—	5,446,714
Short-Term Investments (d)	43,261,968	—	—	43,261,968
Total	**$ 423,086,232**	**$ —**	**$ —**	**$ 423,086,232**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(d) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $343,864,087) — including $22,874,186 of securities loaned	$	379,824,264
Investment in Daily Assets Fund Institutional (cost $23,746,925)		23,746,925
Investment in Central Cash Management Fund (cost $19,515,043)		19,515,043
Total investments in securities, at value (cost $387,126,055)		423,086,232
Foreign currency, at value (cost $31,425)		33,996
Receivable for Fund shares sold		10,428
Dividends receivable		1,082,805
Interest receivable		4,908
Foreign taxes recoverable		2,107
Other assets		11,027
Total assets		424,231,503

Liabilities		
Payable upon return of securities loaned		23,746,925
Payable for Fund shares redeemed		557,503
Accrued management fee		216,934
Other accrued expenses and payables		107,731
Total liabilities		24,629,093
Net assets, at value	**$**	**399,602,410**

Net Assets Consist of		
Undistributed net investment income		7,574,376
Net unrealized appreciation (depreciation) on:		
Investments		35,960,177
Foreign currency		2,758
Accumulated net realized gain (loss)		(150,833,826)
Paid-in capital		506,898,925
Net assets, at value	**$**	**399,602,410**
Class A		
Net Asset Value, offering and redemption price per share ($396,151,122 ÷ 34,282,579 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.56**
Class B		
Net Asset Value, offering and redemption price per share ($3,451,288 ÷ 298,416 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.57**

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $51,949)	$	10,406,339
Income distributions — Central Cash Management Fund		20,192
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		22,773
Total income		10,449,304
Expenses:		
Management fee		2,279,690
Administration fee		355,288
Services to shareholders		8,319
Distribution service fee (Class B)		6,397
Record keeping fees (Class B)		1,352
Custodian fee		12,707
Professional fees		66,942
Reports to shareholders		58,071
Trustees' fees and expenses		11,065
Other		23,995
Total expenses		2,823,826
Net investment income		**7,625,478**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(4,711,630)
Foreign currency		8,149
		(4,703,481)
Change in net unrealized appreciation (depreciation) on:		
Investments		(23,492,091)
Foreign currency		(3,494)
		(23,495,585)
Net gain (loss)		**(28,199,066)**
Net increase (decrease) in net assets resulting from operations	**$**	**(20,573,588)**

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, 2011	2010
Operations:		
Net investment income (loss)	$ 7,625,478	$ 4,298,825
Net realized gain (loss)	(4,703,481)	8,028,746
Change in net unrealized appreciation (depreciation)	(23,495,585)	7,889,692
Net increase (decrease) in net assets resulting from operations	(20,573,588)	20,217,263
Distributions to shareholders from:		
Net investment income:		
Class A	(4,120,416)	(4,108,146)
Class B	(23,046)	(14,019)
Total distributions	$ (4,143,462)	$ (4,122,165)
Fund share transactions:		
Class A		
Proceeds from shares sold	16,221,346	8,671,405
Net assets acquired in tax-free reorganization	273,358,779	—
Reinvestment of distributions	4,120,416	4,108,146
Payments for shares redeemed	(78,529,959)	(36,788,065)
Net increase (decrease) in net assets from Class A share transactions	215,170,582	(24,008,514)
Class B		
Proceeds from shares sold	1,297,157	506,629
Net assets acquired in tax-free reorganization	1,731,132	—
Reinvestment of distributions	23,046	14,019
Payments for shares redeemed	(661,197)	(88,091)
Net increase (decrease) in net assets from Class B share transactions	2,390,138	432,557
Increase (decrease) in net assets	192,843,670	(7,480,859)
Net assets at beginning of period	206,758,740	214,239,599
Net assets at end of period (including undistributed net investment income of $7,574,376 and $4,084,211, respectively)	**$ 399,602,410**	**$ 206,758,740**

Other Information		
Class A		
Shares outstanding at beginning of period	17,416,427	19,667,770
Shares sold	1,390,527	778,508
Shares issued in tax-free reorganization	21,886,687	—
Shares issued to shareholders in reinvestment of distributions	332,559	366,145
Shares redeemed	(6,743,621)	(3,395,996)
Net increase (decrease) in Class A shares	16,866,152	(2,251,343)
Shares outstanding at end of period	**34,282,579**	**17,416,427**
Class B		
Shares outstanding at beginning of period	105,172	66,594
Shares sold	108,601	45,434
Shares issued in tax-free reorganization	138,157	—
Shares issued to shareholders in reinvestment of distributions	1,856	1,246
Shares redeemed	(55,370)	(8,102)
Net increase (decrease) in Class B shares	193,244	38,578
Shares outstanding at end of period	**298,416**	**105,172**

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

Financial Highlights

Class A

	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$11.80**	**$10.86**	**$ 8.92**	**$19.21**	**$17.96**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.25	.23	.21	.21	.26
Net realized and unrealized gain (loss)	(.24)	.93	1.97	(5.68)	1.98
Total from investment operations	.01	1.16	2.18	(5.47)	2.24
Less distributions from:					
Net investment income	(.25)	(.22)	(.24)	(.34)	(.32)
Net realized gains	—	—	—	(4.48)	(.67)
Total distributions	(.25)	(.22)	(.24)	(4.82)	(.99)
Net asset value, end of period	**$11.56**	**$11.80**	**$10.86**	**$ 8.92**	**$19.21**
Total Return (%)	(.07)	10.77	25.37	(36.40)[b]	13.15[b,c]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	396	206	214	118	229
Ratio of expenses before expense reductions (%)	.79	.82	.76	.87	.83
Ratio of expenses after expense reductions (%)	.79	.82	.76	.86	.82
Ratio of net investment income (loss) (%)	2.15	2.13	2.22	1.59	1.43
Portfolio turnover rate (%)	28	32	76	97	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 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, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$11.81**	**$10.86**	**$ 8.92**	**$19.20**	**$17.94**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.22	.20	.19	.12	.19
Net realized and unrealized gain (loss)	(.25)	.93	1.96	(5.64)	1.99
Total from investment operations	(.03)	1.13	2.15	(5.52)	2.18
Less distributions from:					
Net investment income	(.21)	(.18)	(.21)	(.28)	(.25)
Net realized gains	—	—	—	(4.48)	(.67)
Total distributions	(.21)	(.18)	(.21)	(4.76)	(.92)
Net asset value, end of period	**$11.57**	**$11.81**	**$10.86**	**$ 8.92**	**$19.20**
Total Return (%)	(.36)	10.53	24.86	(36.64)[b]	12.77[b,c]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	1	1	.29	8
Ratio of expenses before expense reductions (%)	1.10	1.11	1.06	1.28	1.21
Ratio of expenses after expense reductions (%)	1.10	1.11	1.06	1.26	1.20
Ratio of net investment income (loss) (%)	1.84	1.84	1.92	1.20	1.06
Portfolio turnover rate (%)	28	32	76	97	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 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.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

Multiple Classes of Shares of Beneficial Interest. The Fund offers two classes of shares (Class A shares and Class B shares). Sales of Class B shares are subject to recordkeeping fees up to 0.15% and Rule 12b-1 fees under the 1940 Act equal to an annual rate of 0.25% of the average daily net assets of the Class B shares of the Fund. Class A shares are not subject to such fees.

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities and exchange traded funds ("ETFs") are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Federal Income Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax basis capital loss carryforward of approximately $148,261,000, including $143,482,000 of pre-enactment losses of which $102,395,000 was inherited from its merger with DWS Strategic Value VIP in the current year and $31,552,000 was inherited from its merger with another affiliated fund in a previous year and may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2015 ($14,184,000), December 31, 2016 ($117,215,000) and December 31, 2017 ($12,083,000), the respective expiration dates, whichever occurs first; and which may be subject to certain limitations under Section 382–384 of the Internal Revenue Code, and $4,779,000 of post-enactment losses which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($3,552,000) and long-term losses ($1,227,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 7,574,376
Capital loss carryforwards	$ (148,261,000)
Unrealized appreciation (depreciation) on investments	$ 33,387,763

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 4,143,462	$ 4,122,165

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments) aggregated $97,517,303 and $154,946,926, respectively.

C. Related Parties

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

Prior to December 1, 2011, pursuant to a subadvisory agreement, Deutsche Asset Management International GmbH ("DeAMi"), an affiliate of the Advisor, served as subadvisor with respect to investment and reinvestment of assets of the Fund. The Advisor compensated DeAMi out of the management fee it received from the Fund. The Fund's board approved the termination of DeAMi as the Fund's subadvisor and effective December 1, 2011, the Advisor assumed all day-to-day advisory responsibilities for the Fund that were previously delegated to DeAMi. The Fund's portfolio managers continue to provide advisory services to the Fund as employees of the Advisor.

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

First $250 million	.650%
Next $750 million	.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%

For the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.64% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $355,288, of which $33,860 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2011
Class A	$ 319	$ 98
Class B	114	42
	$ 433	**$ 140**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DWS Investments Distributors, Inc. ("DIDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2011, the Distribution Service Fee aggregated $6,397, of which $738 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,874, of which $2,385 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Effective July 14, 2011, Deutsche Bank AG serves as securities lending agent for the Fund. For the period from July 14, 2011 through December 31, 2011, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,735.

D. Ownership of the Fund

At December 31, 2011, two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 54% and 29%. Two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 61% and 13%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

F. Acquisition of Assets

On April 29, 2011, the Fund acquired all of the net assets of DWS Strategic Value VIP pursuant to a plan of reorganization approved by shareholders on January 12, 2011. The acquisition was accomplished by a tax-free exchange of 31,515,416 Class A shares and 198,385 Class B shares of DWS Strategic Value VIP for 21,886,687 Class A shares and 138,157 Class B shares of the Fund, respectively, outstanding on April 29, 2011. DWS Strategic Value VIP's net assets at that date, $275,089,911, including $20,489,725 of net unrealized appreciation, were combined with those of the Fund. The aggregate net assets of the Fund immediately before the acquisition were $212,494,328. The combined net assets of the Fund immediately following the acquisition were $487,584,239.

The financial statements reflect the operations of the Fund for the period prior to the acquisition and the combined portfolio for the period subsequent to the portfolio merger. Assuming the acquisition had been completed on January 1, 2011, the Fund's pro forma results of operations for the year ended December 31, 2011, are as follows:

	Total Aggregated
Net investment income*	$ 8,423,504
Net gain (loss) on investments	$ (6,816,003)
Net increase (decrease) in net assets resulting from operations	$ 1,607,501

* Net investment income includes $36,372 of pro forma eliminated expenses.

Because the combined investment portfolio has been managed as a single integrated Fund since the acquisition was completed, it is not practicable to separate the amounts of revenue and earnings of DWS Strategic Value VIP that have been included in the Fund's Statement of Operations since April 29, 2011.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Large Cap Value VIP:

We have audited the accompanying statement of assets and liabilities of DWS Large Cap Value VIP, one of the funds constituting the DWS Variable Series II (the "Fund"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Large Cap Value VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses (Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees, distribution and service (12b-1) fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$ 938.30	$ 936.80
Expenses Paid per $1,000*	$ 3.86	$ 5.37

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 7/1/11	$1,000.00	$1,000.00
Ending Account Value 12/31/11	$1,021.22	$1,019.66
Expenses Paid per $1,000*	$ 4.02	$ 5.60

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

Annualized Expense Ratios	Class A	Class B
DWS Variable Series II — DWS Large Cap Value VIP	.79%	1.10%

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

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

Tax Information

(Unaudited)

For corporate shareholders, 100% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2011, qualified for the 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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Large Cap Value VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DWS and Deutsche Asset Management International GmbH ("DeAMi"), an affiliate of DWS, in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Fund's Rule 12b-1 plan, distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS and DeAMi are 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 DWS's and DeAMi'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, DWS and DeAMi provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 4th quartile, 3rd 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 and has outperformed its benchmark in the three- and five-year periods ended December 31, 2010. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DWS and DeAMi the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance during the first seven months of 2011. The Board recognized that DWS 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 DWS and DeAMi 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 a 0.10% fee paid to DWS 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, 2010). With respect to the sub-advisory fee paid to DeAMi, the Board noted that the fee is paid by DWS 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, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Lipper Universe Expenses. The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS and DeAMi.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board unanimously determined that the continuation of the 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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2LCV-2 (R-025833-1 2/12)

DWS
INVESTMENTS
Deutsche Bank Group

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Money Market VIP

DWS INVESTMENTS
Deutsche Bank Group

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

An investment in this Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or by any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund. The share price of money market funds can fall below the $1.00 share price. You should not rely on or expect the Advisor to enter into support agreements or take other actions to maintain the Fund's $1.00 share price. The credit quality of the Fund's holdings can change rapidly in certain markets, and the default of a single holding could have an adverse impact on the Fund's share price. The Fund's share price can also be negatively affected during periods of high redemption pressures and/or illiquid markets. The actions of a few large investors in the Fund may have a significant adverse effect on the share price of the Fund. See the prospectus for specific details regarding the Fund's risk profile.

DWS Investments is part of Deutsche Bank's Asset Management division and, within the U.S., 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, 2011 (Unaudited)

DWS Money Market 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 Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns. The yield quotation more closely reflects the current earnings of the Fund than the total return quotation.

An investment in this Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or by any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund. The share price of money market funds can fall below the $1.00 share price.

Fund's Class A Shares Yield	7-day current yield
December 31, 2011	0.01%*
December 31, 2010	0.01%*

* The investment advisor has agreed to waive fees/reimburse expenses. Without such fee waivers/expense reimbursements, the 7-day current yield would have been lower.

Yields are historical, will fluctuate and do not guarantee future performance. The 7-day current yield refers to the income paid by the Fund over a 7-day period expressed as an annual percentage rate of the Fund's shares outstanding.

Management Summary

December 31, 2011 (Unaudited)

Over the Fund's most recent 12-month period ending December 31, 2011, money markets were responding to alternating degrees of perceived risk in the global financial markets, with short-term rates rising or falling slightly in response to the current state of the European sovereign debt crisis.[1] During the summer, the political standoff in the United States related to the raising of the U.S. debt ceiling also spurred volatility in financial markets. Additionally, credit downgrades of various domestic and international banks and "credit watches" instituted by ratings agencies on some European countries exerted pressure on the money markets.[2] Encouragingly, the European Central Bank (ECB) has made some extraordinary efforts over the past several months to head off additional problems for European governments and banks by securing funding access for the Continent's major banks.

During the 12-month period ended December 31, 2011, the Fund provided a total return of 0.01% (Class A shares, unadjusted for contract charges).

We were able to maintain a competitive yield for the Fund during the period. (All performance is historical and does not guarantee future results. Yields fluctuate and are not guaranteed.) Over the period, we continued to hold a large percentage of portfolio assets in short-maturity instruments, for liquidity purposes as well as for high quality and yield. We also maintained a conservative average maturity, with Fund assets broadly diversified among a number of different sectors, including banks, corporate issues, U.S. government securities and sovereign debt. In addition, we focused on more favorable geographical areas for money market investment, such as Canada, Australia and the Nordic region.

A group of investment professionals is responsible for the day-to-day management of the Fund. These investment professionals have a broad range of experience managing money market funds.

1 Sovereign debt is government bonds issued in a foreign currency.

2 Credit quality measures 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. Credit quality does not remove market risk and is subject to change.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**12/31/11**	**12/31/10**
Commercial Paper	36%	31%
Certificates of Deposit and Bank Notes	18%	14%
Repurchase Agreements	18%	20%
Short-Term Notes	16%	21%
Government & Agency Obligations	12%	14%
	100%	100%

Weighted Average Maturity*		
DWS Variable Series II — DWS Money Market VIP	43 days	51 days
First Tier Retail Money Fund Average	38 days	39 days

* The Fund is compared to its respective iMoneyNet Category: First Tier Retail Money Fund Average — Category includes a widely recognized composite of money market funds that invest in only first tier (highest rating) securities. Portfolio Holdings of First Tier funds include U.S. Treasury, U.S. Other, Repos, Time Deposits, Domestic Bank Obligations, Foreign Bank Obligations, First Tier Commercial Paper, Floating Rate Notes and Asset Backed Commercial Paper.

Weighted average maturity, also known as effective maturity, is the weighted average of the bonds held by the Fund taking into consideration any available maturity shortening features.

Asset allocation and weighted average maturity are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. In addition, each month, information about the Fund and its portfolio holdings is filed with the SEC on Form N-MFP. The SEC delays the public availability of the information filed on Form N-MFP for 60 days after the end of the reporting period included in the filing. These forms will be available on the SEC's Web site at www.sec.gov, and they may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Principal Amount ($)	Value ($)
Certificates of Deposit and Bank Notes 16.2%		
Banco del Estado de Chile, 0.5%, 1/17/2012	1,500,000	1,500,000
Bank Nederlandse Gemeenten, 6.0%, 3/26/2012	500,000	506,506
Bank of Nova Scotia:		
0.27%, 2/16/2012	3,000,000	3,000,038
0.31%, 1/31/2012	4,500,000	4,500,075
China Construction Bank Corp., 0.3%, 1/3/2012	2,000,000	2,000,000
Credit Suisse, 0.38%, 1/3/2012	1,500,000	1,500,000
DnB NOR Bank ASA, 0.35%, 1/17/2012	2,000,000	2,000,000
Industrial & Commercial Bank of China, 0.7%, 1/6/2012	1,200,000	1,200,000
Mitsubishi UFJ Trust & Banking Corp., 0.44%, 1/23/2012	2,000,000	2,000,000
Nederlandse Waterschapsbank NV, 1.375%, 2/17/2012	800,000	801,017
Nordea Bank Finland PLC:		
0.35%, 1/13/2012	2,000,000	2,000,000
0.4%, 2/15/2012	2,500,000	2,500,031
Rabobank Nederland NV:		
0.4%, 2/15/2012	1,000,000	1,000,000
0.43%, 3/2/2012	1,800,000	1,800,000
Skandinaviska Enskilda Banken AB:		
0.35%, 1/11/2012	2,800,000	2,800,000
0.36%, 1/6/2012	1,150,000	1,150,000
0.45%, 2/13/2012	1,500,000	1,500,000
Svenska Handelsbanken AB, 0.355%, 1/10/2012	3,500,000	3,500,048
Total Certificates of Deposit and Bank Notes (Cost $35,257,715)		**35,257,715**
Commercial Paper 32.3%		
Issued at Discount 31.7%**		
Barclays Bank PLC:		
0.33%, 1/20/2012	1,800,000	1,799,686
0.38%, 1/4/2012	1,500,000	1,499,952
0.46%, 2/1/2012	2,000,000	1,999,208
0.52%, 2/27/2012	1,000,000	999,177
BHP Billiton Finance U.S.A. Ltd.:		
144A, 0.18%, 1/9/2012	1,500,000	1,499,940
144A, 0.19%, 2/7/2012	1,500,000	1,499,707
BNZ International Funding Ltd.:		
144A, 0.49%, 3/8/2012	1,500,000	1,498,632
144A, 0.5%, 3/13/2012	1,500,000	1,498,500
144A, 0.57%, 4/10/2012	1,000,000	998,417
Erste Abwicklungsanstalt:		
0.37%, 1/9/2012	1,000,000	999,918
0.39%, 2/16/2012	1,200,000	1,199,402
0.4%, 3/9/2012	600,000	599,547
0.4%, 3/29/2012	800,000	799,218
0.42%, 1/3/2012	2,000,000	1,999,953
0.46%, 1/5/2012	1,200,000	1,199,939
Erste Finance Delaware LLC, 0.16%, 1/3/2012	8,000,000	7,999,929
General Electric Capital Services, Inc., 0.23%, 2/6/2012	1,250,000	1,249,712
HSBC Bank U.S.A., NA, 0.21%, 1/18/2012	5,000,000	4,999,504
Kells Funding LLC:		
144A, 0.35%, 2/17/2012	800,000	799,634
144A, 0.37%, 3/19/2012	700,000	699,439
144A, 0.38%, 4/17/2012	700,000	699,209
144A, 0.43%, 1/30/2012	1,000,000	999,654
144A, 0.45%, 1/20/2012	1,000,000	999,763
144A, 0.52%, 2/1/2012	1,250,000	1,249,440
144A, 0.52%, 2/16/2012	1,500,000	1,499,003
Merck & Co., Inc., 0.06%, 1/11/2012	2,500,000	2,499,958
Mont Blanc Capital Corp., 144A, 0.37%, 1/3/2012	2,500,000	2,499,949
NRW.Bank:		
0.4%, 1/6/2012	1,500,000	1,499,917
0.43%, 2/7/2012	2,000,000	1,999,116
Proctor & Gamble Co., 0.07%, 3/27/2012	2,000,000	1,999,666
SBAB Bank AB, 144A, 0.55%, 1/30/2012	1,000,000	999,557
Sheffield Receivables Corp., 144A, 0.4%, 2/7/2012	1,500,000	1,499,383
Standard Chartered Bank, 0.38%, 2/7/2012	2,000,000	1,999,219
Unilever Capital Corp., 0.08%, 3/6/2012	10,000,000	9,998,556
UOB Funding LLC, 0.42%, 1/24/2012	2,500,000	2,499,329
		68,781,133
Issued at Par 0.6%		
DnB NOR Bank ASA, 144A, 0.43%, 4/2/2012	1,300,000	**1,300,000**
Total Commercial Paper (Cost $70,081,133)		**70,081,133**
Short-Term Notes* 14.4%		
Australia & New Zealand Banking Group Ltd., 144A, 0.31%, 1/20/2012	1,200,000	1,200,000
Bank of Nova Scotia:		
0.39%, 6/11/2012	1,000,000	1,000,000
0.492%, 1/10/2013	1,000,000	1,000,000
Caisse d'Amortissement de la Dette Sociale, 144A, 0.431%, 5/25/2012	2,000,000	1,999,912
Canadian Imperial Bank of Commerce, 0.373%, 4/26/2012	1,200,000	1,200,000
Commonwealth Bank of Australia:		
144A, 0.376%, 2/3/2012	1,000,000	1,000,000
144A, 0.499%, 5/11/2012	2,000,000	2,000,000
JPMorgan Chase Bank NA, 0.57%, 1/8/2013	2,000,000	2,000,000
Kells Funding LLC:		
144A, 0.37%, 2/27/2012	1,000,000	1,000,000
144A, 0.423%, 2/24/2012	1,750,000	1,750,000
Landesbank Baden-Wurttemberg, 144A, 0.789%, 6/22/2012	7,250,000	7,250,000
Nordea Bank Finland PLC, 0.941%, 9/13/2012	1,500,000	1,502,556
Queensland Treasury Corp., 0.42%, 11/19/2012	2,000,000	2,000,000
Rabobank Nederland NV, 0.356%, 1/10/2012	750,000	750,000
Svenska Handelsbanken AB, 144A, 0.577%, 8/7/2012	750,000	750,000
Toronto-Dominion Bank, 0.296%, 5/11/2012	1,000,000	1,000,000

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

	Principal Amount ($)	Value ($)
Westpac Banking Corp.:		
0.34%, 1/10/2012	1,500,000	1,500,000
0.366%, 5/9/2012	1,500,000	1,500,000
0.366%, 7/11/2012	750,000	750,000
Total Short-Term Notes (Cost $31,152,468)		**31,152,468**

Government & Agency Obligations 10.5%

U.S. Government Sponsored Agencies 4.3%

	Principal Amount ($)	Value ($)
Federal Home Loan Bank:		
0.13%, 1/23/2012	2,000,000	1,999,960
0.16%**, 11/13/2012	1,000,000	998,591
0.23%, 8/24/2012	1,200,000	1,200,321
Federal National Mortgage Association:		
0.098%**, 2/13/2012	1,200,000	1,199,857
0.137%**, 2/17/2012	1,500,000	1,499,726
0.142%**, 1/17/2012	2,500,000	2,499,833
		9,398,288

U.S. Treasury Obligations 6.2%

	Principal Amount ($)	Value ($)
U.S. Treasury Notes:		
0.375%, 8/31/2012	2,130,000	2,133,173
0.625%, 6/30/2012	853,000	855,123
0.625%, 7/31/2012	4,000,000	4,011,673
0.75%, 5/31/2012	2,130,000	2,135,770
0.875%, 1/31/2012	1,250,000	1,250,685
1.375%, 10/15/2012	2,500,000	2,524,005
4.875%, 6/30/2012	426,000	436,017
		13,346,446
Total Government & Agency Obligations (Cost $22,744,734)		**22,744,734**

Repurchase Agreements 16.1%

	Principal Amount ($)	Value ($)
JPMorgan Securities, Inc., 0.03%, dated 12/30/2011, to be repurchased at $35,000,117 on 1/3/2012 (a) (Cost $35,000,000)	35,000,000	**35,000,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $194,236,050)†	89.5	**194,236,050**
Other Assets and Liabilities, Net	10.5	**22,716,167**
Net Assets	100.0	**216,952,217**

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2011.

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

† The cost for federal income tax purposes was $194,236,050.

(a) Collateralized by $436,418,506 Federal National Mortgage Association Interest Only, with various coupon rates from 2.0–5.5%, with various maturity dates of 5/25/2013–11/25/2040 with a value of $35,700,108.

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

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Securities held by the Fund are reflected as Level 2 because the securities are valued at amortized cost (which approximates fair value) and, accordingly, the inputs used to determine value are not quoted prices in an active market.

The following is a summary of the inputs used as of December 31, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Investments in Securities (b)	$ —	$ 159,236,050	$ —	$ 159,236,050
Repurchase Agreements	—	35,000,000	—	35,000,000
Total	**$ —**	**$ 194,236,050**	**$ —**	**$ 194,236,050**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(b) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, valued at amortized cost	$	159,236,050
Repurchase agreements, valued at amortized cost		35,000,000
Total investments, valued at amortized cost		194,236,050
Cash		20,707,153
Receivable for investments sold		2,002,095
Receivable for Fund shares sold		371,743
Interest receivable		107,324
Other assets		3,639
Total assets		217,428,004

Liabilities		
Payable for Fund shares redeemed		303,165
Distributions payable		994
Accrued management fee		48,871
Other accrued expenses and payables		122,757
Total liabilities		475,787
Net assets, at value	**$**	**216,952,217**

Net Assets Consist of		
Distributions in excess of net investment income		(659)
Paid-in capital		216,952,876
Net assets, at value	**$**	**216,952,217**
Class A		
Net Asset Value, offering and redemption price per share ($216,952,217 ÷ 217,036,592 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Interest	$	564,080
Expenses:		
Management fee		614,621
Administration fee		215,659
Services to shareholders		1,167
Custodian fee		16,285
Professional fees		56,440
Reports to shareholders		168,506
Trustees' fee and expenses		8,110
Other		11,901
Total expenses		1,092,689
Expense reductions		(550,185)
Total expenses after expense reductions		542,504
Net investment income		**21,576**
Net realized gain (loss)		**348**
Net increase (decrease) in net assets resulting from operations	**$**	**21,924**

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, 2011	2010
Operations:		
Net investment income	$ 21,576	$ 24,815
Net realized gain (loss)	348	1,201
Net increase (decrease) in net assets resulting from operations	21,924	26,016
Distributions to shareholders from:		
Net investment income		
Class A	(21,576)	(24,815)
Total distributions	$ (21,576)	$ (24,815)
Fund share transactions:		
Class A		
Proceeds from shares sold	147,415,537	111,590,276
Reinvestment of distributions	21,589	26,864
Payments for shares redeemed	(150,401,802)	(161,340,354)
Net increase (decrease) in net assets from Class A share transactions	(2,964,676)	(49,723,214)
Increase (decrease) in net assets	(2,964,328)	(49,722,013)
Net assets at beginning of period	219,916,545	269,638,558
Net assets at end of period (including distributions in excess of net investment income of $659 and $1,007, respectively)	**$ 216,952,217**	**$ 219,916,545**

Other Information		
Class A		
Shares outstanding at beginning of period	220,001,268	269,724,482
Shares sold	147,415,537	111,590,276
Shares issued to shareholders in reinvestment of distributions	21,589	26,864
Shares redeemed	(150,401,802)	(161,340,354)
Net increase (decrease) in Class A shares	(2,964,676)	(49,723,214)
Shares outstanding at end of period	**217,036,592**	**220,001,268**

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

Financial Highlights

Class A	Years Ended December 31, 2011	2010	2009	2008	2007
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	.000*	.000*	.003	.026	.049
Total from investment operations	.000*	.000*	.003	.026	.049
Less distributions from:					
Net investment income	(.000)*	(.000)*	(.003)	(.026)	(.049)
Net asset value, end of period	**$1.000**	**$1.000**	**$1.000**	**$1.000**	**$1.000**
Total Return (%)	.01[a]	.01[a]	.34	2.64[a]	5.00[a]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	217	220	270	398	355
Ratio of expenses before expense reductions (%)	.51	.46	.43	.52	.46
Ratio of expenses after expense reductions (%)	.25	.34	.43	.50	.45
Ratio of net investment income (%)	.01	.01	.37	2.56	4.88

[a] Total return would have been lower had certain expenses not been reduced.

* Amount is less than $.0005.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

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

The Fund values all securities utilizing the amortized cost method permitted in accordance with Rule 2a-7 under the 1940 Act and certain conditions therein. Under this method, which does not take into account unrealized capital gains or losses on securities, an instrument is initially valued at its cost and thereafter assumes a constant accretion/amortization rate to maturity of any discount or premium. Securities held by the Fund are reflected as Level 2 because the securities are valued at amortized cost (which approximates fair value) and, accordingly, the inputs used to determine value are not quoted prices in an active market.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

Repurchase Agreements. The Fund may enter into repurchase agreements with certain banks and broker/dealers whereby the Fund, through its custodian or a sub-custodian bank, receives delivery of the underlying securities, the amount of which at the time of purchase and each subsequent business day is required to be maintained at such a level that the value is equal to at least the principal amount of the repurchase price plus accrued interest. The custodian or another designated sub-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 Fund has the right to sell the securities and recover any resulting loss from the financial institution. If the financial institution enters into bankruptcy, the Fund's claim on the collateral may be subject to legal proceedings.

Federal Income Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

Distribution of Income and Gains. Net investment income of the Fund is declared as a daily dividend and is distributed to shareholders monthly. The Fund may take into account capital gains and losses in its daily dividend declarations. The Fund may also make additional distributions for tax purposes if necessary.

Permanent book and tax differences relating to shareholder distributions will result in reclassifications to paid-in capital. Temporary book and tax differences will reverse in a subsequent period. There were no significant book to tax differences for the Fund.

The tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 21,576	$ 24,815

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

B. Related Parties

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

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

First $500 million	.285%
Next $500 million	.270%
Next $1.0 billion	.255%
Over $2.0 billion	.240%

For the period from January 1, 2011 through September 30, 2012, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.51%.

In addition, the Advisor has agreed to voluntarily waive additional expenses for the Fund. The waiver may be changed or terminated at any time without notice. Under this arrangement, the Advisor waived certain expenses of the Fund.

Accordingly, for the year ended December 31, 2011, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $549,592, and the amount charged aggregated $65,029, which was equivalent to an annual effective rate of 0.03% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $215,659, of which $19,496 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC aggregated $593, all of which was waived.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,402, of which $3,896 is unpaid.

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

C. Ownership of the Fund

At December 31, 2011, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 35%, 21% and 12%.

D. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement: The Fund had no outstanding loans at December 31, 2011.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Money Market VIP:

We have audited the accompanying statement of assets and liabilities of DWS Money Market VIP (the "Fund"), one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Money Market VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,000.10
Expenses Paid per $1,000*	$ 1.26

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,023.95
Expenses Paid per $1,000*	$ 1.28

* Expenses are equal to the Fund'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 365.

Annualized Expense Ratio	**Class A**
DWS Variable Series II — DWS Money Market VIP	.25%

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

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

Tax Information

(Unaudited)

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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Money Market VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS'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, DWS provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including a peer universe compiled by the independent fee consultant using information supplied by iMoneyNet Inc. ("iMoneyNet"). The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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- and three-year periods ended December 31, 2010, the Fund's gross performance (Class A shares) was in the 1st quartile of the applicable iMoneyNet universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

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 DWS 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 Inc. ("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 a 0.10% fee paid to DWS 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, 2010). 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, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 DWS helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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

President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2MM-2 (R-025834-1 2/12)

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Small Mid Cap Growth VIP

(formerly DWS Small Cap Growth VIP)

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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Stocks of smaller- and medium-sized companies involve greater risk than securities of larger, more-established companies. Stocks may decline in value. The fund may lend securities to approved institutions. See the prospectus for details.

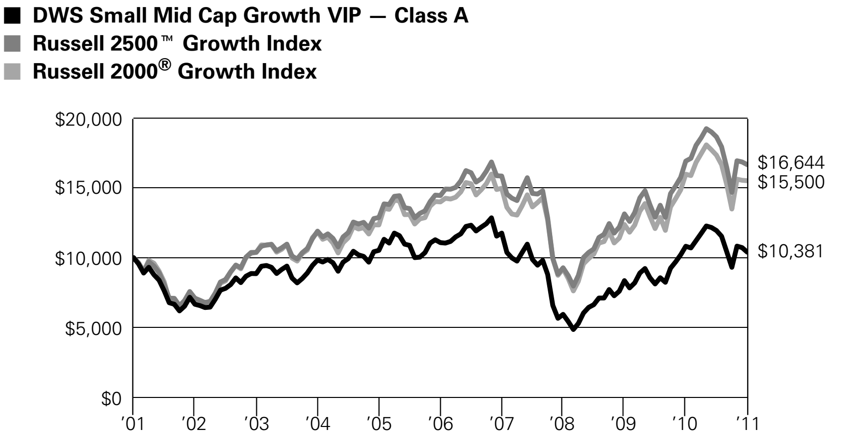
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated May 1, 2011 is 0.78% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in DWS Small Mid Cap Growth VIP



Yearly periods ended December 31

The Russell 2500™ Growth Index is an unmanaged index that measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

*Effective May 1, 2011, the Russell 2500 Growth Index replaces the Russell 2000 Growth Index as the fund's benchmark index because the Advisor believes that it better reflects the fund's investment strategy.

The Russell 2000® Growth Index is an unmanaged, capitalization-weighted measure of 2,000 of the smallest capitalized U.S. companies with a greater-than-average growth orientation and whose common stocks trade on the NYSE, NYSE Alternext US (formerly known as "Amex") and Nasdaq.

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

Comparative Results

DWS Small Mid Cap Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,609	$17,489	$9,379	$10,381
	Average annual total return	–3.91%	20.48%	–1.27%	0.38%
Russell 2500 Growth Index*	Growth of $10,000	$9,843	$17,967	$11,528	$16,644
	Average annual total return	–1.57%	21.57%	2.89%	5.23%
Russell 2000 Growth Index	Growth of $10,000	$9,709	$16,853	$11,088	$15,500
	Average annual total return	–2.91%	19.00%	2.09%	4.48%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2011 (Unaudited)

The Fund was known as DWS Small Cap Growth VIP until May 1, 2011, when its name, the investment objective and strategy changed. The most significant change was that the Fund could invest in common stock of small and mid-sized U.S. companies in addition to foreign securities and other types of equity securities such as preferred stocks or convertible securities.

In early 2011, investors were confident that the U.S. economy would avoid a "double-dip" recession, supported by 3.2% gross domestic product (GDP) growth in the fourth quarter of 2010, steadier housing starts and signs of improvement in payrolls.[1] By March and April 2011, however, higher energy prices from growing social unrest in the Middle East, as well as Japan's earthquake and tsunami, sparked fears of a global slowdown. The market was able to generally brush off these worries and continued its upward trajectory until early July 2011. During mid-summer, the termination of the U.S. Federal Reserve Board's (the Fed's) quantitative easing program, fears of potential contagion from Europe's sovereign debt crisis and some disappointing U.S. economic data significantly dampened investor confidence.[2,3] In addition, political gridlock regarding U.S. debt limit discussions weighed on sentiment. Following the United States credit rating downgrade by Standard & Poor's® in early August 2011, the market entered a prolonged period of bearishness and risk aversion.[4,5] However, investor confidence reemerged late in the year following early October lows as stronger U.S. leading indicator data buoyed sentiment, and as optimism grew that the United States could possibly decouple from Europe's sovereign problems and avoid financial contagion.

For the 12-month period ended December 31, 2011, the Fund returned –3.91% (Class A shares, unadjusted for contract charges), compared with the –1.57% return of the Russell 2500® Growth Index.[6]

The Fund's underperformance of the benchmark came primarily from weak stock selection within information technology, industrials and consumer staples.[7] Only health care and energy benefitted from strong stock selection. Sector allocation had a positive effect on returns, owing to an overweight in consumer staples and underweights to materials, telecom services and financials.[8] In contrast, an overweight to energy and a slight underweight in industrials weighed on returns.

We continue to maintain a long-term perspective, investing in quality small- and mid-cap growth stocks.

Joseph Axtell, CFA
Rafaelina M. Lee
Portfolio Managers

1 Gross domestic product is the value of goods and services produced in an economy.

2 Quantitative easing is a type of monetary policy whereby governments buy government or other types of securities from the market in order to increase the money supply.

3 Sovereign debt is government bonds issued in a foreign currency.

4 Credit quality measures 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. Credit quality does not remove market risk and is subject to change.

5 Standard & Poors is one of the rating agencies that assigns credit quality ratings to bonds.

6 The Russell 2500 Growth Index is an unmanaged, capitalization-weighted measure of the performance of the small- to mid-cap growth segment of the U.S. equity universe. It includes Russell 2500® Index companies with higher price-to-book ratios and higher forecasted growth values.

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

7 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

8 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/11**	**12/31/10**
Common Stocks	98%	97%
Cash Equivalents	2%	3%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/11**	**12/31/10**
Information Technology	22%	25%
Industrials	19%	16%
Consumer Discretionary	17%	16%
Health Care	17%	20%
Energy	8%	9%
Financials	6%	6%
Materials	6%	5%
Consumer Staples	5%	3%
	100%	100%

Asset allocation and sector diversification are subject to change.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 98.2%		
Consumer Discretionary 16.9%		
Auto Components 1.4%		
BorgWarner, Inc.* (a)	18,970	1,209,148
TRW Automotive Holdings Corp.*	27,381	892,620
		2,101,768
Hotels Restaurants & Leisure 1.7%		
Panera Bread Co. "A"*	17,573	**2,485,701**
Household Durables 1.1%		
Jarden Corp.	52,942	**1,581,907**
Internet & Catalog Retail 0.7%		
Shutterfly, Inc.* (a)	48,423	**1,102,107**
Media 2.0%		
Cinemark Holdings, Inc.	94,221	1,742,146
Interpublic Group of Companies, Inc.	117,895	1,147,119
		2,889,265
Specialty Retail 7.5%		
Advance Auto Parts, Inc.	21,496	1,496,767
Children's Place Retail Stores, Inc.* (a)	39,540	2,100,365
DSW, Inc. "A"	43,305	1,914,514
Guess?, Inc.	47,672	1,421,579
PetSmart, Inc.	44,139	2,263,889
Ulta Salon, Cosmetics & Fragrance, Inc.*	27,274	1,770,628
		10,967,742
Textiles, Apparel & Luxury Goods 2.5%		
Deckers Outdoor Corp.*	25,982	1,963,460
Hanesbrands, Inc.*	74,985	1,639,172
		3,602,632
Consumer Staples 5.2%		
Food Products 2.0%		
Diamond Foods, Inc. (a)	43,049	1,389,191
Green Mountain Coffee Roasters, Inc.* (a)	15,542	697,059
TreeHouse Foods, Inc.*	12,613	824,638
		2,910,888
Household Products 1.6%		
Church & Dwight Co., Inc.	50,946	**2,331,289**
Personal Products 1.6%		
Herbalife Ltd.	46,515	**2,403,430**
Energy 8.0%		
Energy Equipment & Services 4.1%		
Core Laboratories NV (a)	18,218	2,075,941
Dresser-Rand Group, Inc.*	38,749	1,933,963
Dril-Quip, Inc.*	30,365	1,998,624
		6,008,528
Oil, Gas & Consumable Fuels 3.9%		
Alpha Natural Resources, Inc.*	33,081	675,845
Approach Resources, Inc.* (a)	63,509	1,867,800
Clean Energy Fuels Corp.* (a)	33,803	421,185
Energy XXI (Bermuda) Ltd.* (a)	38,708	1,234,011
Rosetta Resources, Inc.* (a)	33,719	1,466,776
		5,665,617

	Shares	Value ($)
Financials 5.6%		
Capital Markets 2.0%		
Affiliated Managers Group, Inc.*	19,549	1,875,726
Lazard Ltd. "A"	41,887	1,093,670
		2,969,396
Consumer Finance 0.8%		
DFC Global Corp.*	66,316	**1,197,667**
Insurance 1.8%		
W.R. Berkley Corp.	74,422	**2,559,372**
Real Estate Management & Development 1.0%		
CBRE Group, Inc.*	100,526	**1,530,006**
Health Care 16.8%		
Biotechnology 0.4%		
Onyx Pharmaceuticals, Inc.*	14,448	**634,990**
Health Care Equipment & Supplies 4.1%		
Accuray, Inc.* (a)	230,587	975,383
Merit Medical Systems, Inc.*	78,093	1,044,884
Sirona Dental Systems, Inc.*	30,013	1,321,773
Thoratec Corp.*	49,752	1,669,677
Zeltiq Aesthetics, Inc.* (a)	82,306	934,996
		5,946,713
Health Care Providers & Services 5.8%		
Centene Corp.*	75,707	2,997,240
DaVita, Inc.*	25,134	1,905,409
ExamWorks Group, Inc.* (a)	132,933	1,260,205
Humana, Inc.	13,841	1,212,610
WellCare Health Plans, Inc.*	22,995	1,207,237
		8,582,701
Health Care Technology 1.2%		
SXC Health Solutions Corp.* (a)	32,240	**1,820,915**
Pharmaceuticals 5.3%		
Pacira Pharmaceuticals, Inc.* (a)	180,297	1,559,569
Par Pharmaceutical Companies, Inc.* (a)	51,389	1,681,962
Questcor Pharmaceuticals, Inc.* (a)	92,789	3,858,167
VIVUS, Inc.* (a)	65,348	637,143
		7,736,841
Industrials 18.9%		
Aerospace & Defense 1.2%		
BE Aerospace, Inc.*	46,368	**1,794,905**
Commercial Services & Supplies 2.6%		
Portfolio Recovery Associates, Inc.* (a)	32,546	2,197,506
United Stationers, Inc.	52,216	1,700,153
		3,897,659
Construction & Engineering 2.0%		
Chicago Bridge & Iron Co. NV	36,640	1,384,992
MYR Group, Inc.*	78,695	1,506,223
		2,891,215
Electrical Equipment 2.5%		
General Cable Corp.* (a)	30,175	754,677
The Babcock & Wilcox Co.*	34,191	825,370
Thomas & Betts Corp.*	37,093	2,025,278
		3,605,325

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

	Shares	Value ($)
Machinery 6.7%		
Altra Holdings, Inc.* (a)	83,109	1,564,943
Chart Industries, Inc.*	22,561	1,219,873
Gardner Denver, Inc.	19,970	1,538,888
Joy Global, Inc.	23,292	1,746,201
Sauer-Danfoss, Inc.*	42,764	1,548,484
Timken Co.	19,946	772,110
WABCO Holdings, Inc.*	34,460	1,495,564
		9,886,063
Professional Services 1.2%		
Robert Half International, Inc. (a)	62,533	**1,779,689**
Road & Rail 1.1%		
Kansas City Southern*	23,073	**1,569,195**
Trading Companies & Distributors 1.6%		
United Rentals, Inc.* (a)	80,889	**2,390,270**
Information Technology 21.5%		
Communications Equipment 2.7%		
Comverse Technology, Inc.	1,205	8,098
Finisar Corp.*	41,805	700,025
Harris Corp. (a)	31,404	1,131,800
Polycom, Inc.*	66,027	1,076,240
Sycamore Networks, Inc.*	58,522	1,047,544
		3,963,707
Electronic Equipment, Instruments & Components 2.5%		
Cognex Corp.	61,792	2,211,535
Coherent, Inc.*	28,729	1,501,665
		3,713,200
Internet Software & Services 1.2%		
Equinix, Inc.* (a)	16,709	**1,694,293**
IT Services 5.5%		
Cardtronics, Inc.* (a)	91,952	2,488,221
MAXIMUS, Inc.	44,699	1,848,304
Syntel, Inc.	39,771	1,860,090
VeriFone Systems, Inc.*	54,287	1,928,274
		8,124,889
Semiconductors & Semiconductor Equipment 1.8%		
Atmel Corp.*	104,361	845,324
Cavium, Inc.* (a)	31,861	905,808
Cypress Semiconductor Corp.* (a)	53,862	909,729
		2,660,861
Software 7.8%		
Concur Technologies, Inc.* (a)	22,333	1,134,293
Informatica Corp.*	37,106	1,370,325
MICROS Systems, Inc.*	33,130	1,543,195
NetQin Mobile, Inc. "A" (ADR)* (a)	97,896	515,912
OPNET Technologies, Inc. (a)	13,476	494,165
Red Hat, Inc.*	37,495	1,548,169
Rovi Corp.*	45,828	1,126,452
Taleo Corp. "A"*	48,652	1,882,346
Ultimate Software Group, Inc.*	27,459	1,788,130
		11,402,987
Materials 5.3%		
Chemicals 1.8%		
CF Industries Holdings, Inc.	10,420	1,510,692
Solutia, Inc.*	60,429	1,044,213
		2,554,905
Containers & Packaging 1.1%		
Crown Holdings, Inc.*	48,858	**1,640,652**
Metals & Mining 2.4%		
Allegheny Technologies, Inc.	20,715	990,177
Cliffs Natural Resources, Inc.	11,236	700,564
Detour Gold Corp.*	24,985	616,808
Haynes International, Inc.	6,649	363,035
Thompson Creek Metals Co., Inc.* (a)	128,882	897,018
		3,567,602
Total Common Stocks (Cost $135,278,857)		**144,166,892**
Securities Lending Collateral 23.8%		
Daily Assets Fund Institutional, 0.18% (b) (c) (Cost $35,020,323)	35,020,323	**35,020,323**
Cash Equivalents 2.2%		
Central Cash Management Fund, 0.07% (b) (Cost $3,293,047)	3,293,047	**3,293,047**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $173,592,227)†	124.2	**182,480,262**
Other Assets and Liabilities, Net	(24.2)	**(35,591,148)**
Net Assets	100.0	**146,889,114**

* Non-income producing security.

† The cost for federal income tax purposes was $174,156,103. At December 31, 2011, net unrealized appreciation for all securities based on tax cost was $8,324,159. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,492,551 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $13,168,392.

(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, 2011 amounted to $34,096,654, which is 23.2% of net assets.

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

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

ADR: American Depositary Receipt

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (d)	$ 144,166,892	$ —	$ —	$ 144,166,892
Short-Term Investments (d)	38,313,370	—	—	38,313,370
Total	**$ 182,480,262**	**$ —**	**$ —**	**$ 182,480,262**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(d) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $135,278,857) — including $34,096,654 of securities loaned	$ 144,166,892
Investment in Daily Assets Fund Institutional (cost $35,020,323)*	35,020,323
Investment in Central Cash Management Fund (cost $3,293,047)	3,293,047
Total investments in securities, at value (cost $173,592,227)	182,480,262
Cash	1,558
Foreign currency, at value (cost $772)	783
Receivable for investments sold	531,978
Receivable for Fund shares sold	968
Dividends receivable	28,025
Interest receivable	18,079
Foreign taxes recoverable	319
Other assets	4,015
Total assets	183,065,987

Liabilities	
Payable upon return of securities loaned	35,020,323
Payable for investments purchased	694,008
Payable for Fund shares redeemed	248,198
Accrued management fee	69,826
Other accrued expenses and payables	144,518
Total liabilities	36,176,873
Net assets, at value	**$ 146,889,114**

Net Assets Consist of	
Distributions in excess of net investment income	(45,601)
Net unrealized appreciation (depreciation) on:	
Investments	8,888,035
Foreign currency	11
Accumulated net realized gain (loss)	(35,197,406)
Paid-in capital	173,244,075
Net assets, at value	**$ 146,889,114**
Class A	
Net Asset Value, offering and redemption price per share ($146,889,114 ÷ 11,094,343 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 13.24**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2011

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $2,812)	$ 587,747
Income distributions — Central Cash Management Fund	4,472
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	116,414
Total income	708,633
Expenses:	
Management fee	775,353
Administration fee	140,973
Services to shareholders	3,404
Custodian fee	13,192
Audit and tax fees	58,965
Legal fees	7,424
Reports to shareholders	15,965
Trustees' fees and expenses	6,387
Other	4,989
Total expenses	1,026,652
Net investment income (loss)	**(318,019)**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	15,187,312
Foreign currency	(1,245)
Payment by affiliate (see Note F)	75,429
	15,261,496
Change in net unrealized appreciation (depreciation) on:	
Investments	(32,232,753)
Foreign currency	11
	(32,232,742)
Net gain (loss)	**(16,971,246)**
Net increase (decrease) in net assets resulting from operations	**$ (17,289,265)**

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

Statement of Changes in Net Assets

	Years Ended December 31, 2011	2010
Operations:		
Net investment income (loss)	$ (318,019)	$ (87,977)
Net realized gain (loss)	15,261,496	11,959,891
Change in net unrealized appreciation (depreciation)	(32,232,742)	8,823,086
Net increase (decrease) in net assets resulting from operations	(17,289,265)	20,695,000
Distributions to shareholders from:		
Net investment income:		
Class A	(545,355)	—
Total distributions	(545,355)	—
Fund share transactions:		
Class A		
Proceeds from shares sold	15,498,269	6,051,148
Net assets acquired in tax-free reorganization	93,892,921	—
Reinvestment of distributions	545,355	—
Cost of shares redeemed	(33,642,074)	(17,902,129)
Net increase (decrease) in net assets from Class A share transactions	76,294,471	(11,850,981)
Increase (decrease) in net assets	58,459,851	8,844,019
Net assets at beginning of period	88,429,263	79,585,244
Net assets at end of period (including distributions in excess of net investment income and undistributed net investment income of $45,601 and $516,412, respectively)	**$ 146,889,114**	**$ 88,429,263**

Other Information		
Class A		
Shares outstanding at beginning of period	6,384,947	7,439,067
Shares sold	1,084,284	517,480
Shares issued in tax-free reorganization	6,003,455	—
Shares issued to shareholders in reinvestment of distributions	34,959	—
Shares redeemed	(2,413,302)	(1,571,600)
Net increase (decrease) in Class A shares	4,709,396	(1,054,120)
Shares outstanding at end of period	**11,094,343**	**6,384,947**

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

Financial Highlights

Class A	2011	2010	2009	2008	2007
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$13.85**	**$10.70**	**$ 7.61**	**$15.07**	**$14.19**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.03)	(.01)	(.02)	(.01)	(.01)
Net realized and unrealized gain (loss)	(.50)	3.16	3.11	(7.45)	.89
Total from investment operations	(.53)	3.15	3.09	(7.46)	.88
Less distributions from:					
Net investment income	(.08)	—	—	—	—
Net asset value, end of period	**$13.24**	**$13.85**	**$10.70**	**$ 7.61**	**$15.07**
Total Return (%)	(3.91)	29.44	40.60	(49.50)[b]	6.20[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	147	88	80	69	174
Ratio of expenses before expense reductions (%)	.73	.78	.77	.88	.75
Ratio of expenses after expense reductions (%)	.73	.78	.77	.85	.72
Ratio of net investment income (loss) (%)	(.23)	(.12)	(.22)	(.04)	(.09)
Portfolio turnover rate (%)	84	64	93	67	67

[a] Based on average shares outstanding during the period.

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

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments.

Federal Income Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to its shareholders.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

At December 31, 2011, the Fund had a net tax bases capital loss carryforward of approximately $29,395,000 of pre-enactment losses of which $5,435,000 was inherited from its mergers with DWS Turner Mid Cap Growth VIP and DWS Mid Cap Growth VIP in the current year and which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($5,435,000) and December 31, 2017 ($23,960,000), the respective expiration dates, whichever occurs first and which may be subject to certain limitations under Section 382-384 of the Internal Revenue Code.

In addition, from November 1, 2011 to December 31, 2011, the Fund elects to defer qualified late year losses of approximately $5,239,000 of net realized short-term capital losses and approximately $46,000 of net ordinary losses. The Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending December 31, 2012.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Capital loss carryforwards	$ (29,395,000)
Unrealized appreciation (depreciation) on investments	$ 8,324,159

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 545,355	$ —

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation.

B. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments) aggregated $118,429,716 and $135,190,910, respectively.

C. Related Parties

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

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

First $250 million	.550%
Next $750 million	.525%
Over $1 billion	.500%

Accordingly, for the year ended December 31, 2011, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate of 0.55% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $140,973, of which $12,696 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC aggregated $301, of which $87 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $12,265, of which $3,276 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

Securities Lending Agent Fees. Effective July 14, 2011, Deutsche Bank AG serves as securities lending agent for the Fund. For the period from July 14, 2011 through December 31, 2011, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $10,971.

D. Ownership of the Fund

At December 31, 2011, three Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 54%, 23% and 15%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

F. Payment by Affiliate

In connection with the Fund's investment strategy change effective May 1, 2011, the Advisor agreed to reimburse the Fund for transaction costs of $75,429 incurred from the repositioning of the Fund's investments.

G. Acquisition of Assets

On April 29, 2011, the Fund acquired all of the net assets of DWS Mid Cap Growth VIP and DWS Turner Mid Cap Growth VIP pursuant to a plan of reorganization approved by shareholders on January 12, 2011. The acquisition was accomplished by a tax-free exchange of 2,029,578 Class A shares of DWS Mid Cap Growth VIP and 6,543,235 Class A shares of DWS Turner Mid Cap Growth VIP for 1,818,964 Class A shares and 4,184,491 Class A shares of the Fund, respectively, outstanding on April 29, 2011. DWS Mid Cap Growth VIP and DWS Turner Mid Cap Growth VIP's net assets at that date, $28,448,304 and $65,444,617, respectively, including $6,234,926 and $6,931,871 of net unrealized appreciation, respectively, were combined with those of the Fund. The aggregate net assets of the Fund immediately before the acquisition were $105,299,610. The combined net assets of the Fund immediately following the acquisition were $199,192,531.

The financial statements reflect the operations of the Fund for the period prior to the acquisition and the combined portfolio for the period subsequent to the portfolio merger. Assuming the acquisition had been completed on January 1, 2011, the Fund's pro forma results of operations for the year ended December 31, 2011, are as follows:

Net investment income*	$	(531,751)
Net gain (loss) on investments	$	(5,816,813)
Net increase (decrease) in net assets resulting from operations	$	(6,348,564)

* Net investment income includes $42,719 of pro forma eliminated expenses.

Because the combined investment portfolio has been managed as a single integrated portfolio since the acquisitions were completed, it is not practicable to separate the amounts of revenue and earnings of DWS Mid Cap Growth VIP and DWS Turner Mid Cap Growth VIP that have been included in the Fund's Statement of Operations since April 29, 2011.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Small Mid Cap Growth VIP:

We have audited the accompanying statement of assets and liabilities of DWS Small Mid Cap Growth VIP (formerly DWS Small Cap Growth VIP) (the "Fund"), one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, and the related statement of operations for the year then ended, the statement of changes in net assets for 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Small Mid Cap Growth VIP at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses

(Unaudited)

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$ 869.90
Expenses Paid per $1,000*	$ 3.35

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,021.63
Expenses Paid per $1,000*	$ 3.62

* Expenses are equal to the Fund'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 365.

Annualized Expense Ratio	**Class A**
DWS Variable Series II — DWS Small Mid Cap Growth VIP	.71%

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

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

Tax Information

(Unaudited)

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 contact your insurance provider.

For corporate shareholders, 100% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2011, qualified for the dividends received deduction.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Small Mid Cap Growth VIP's (formerly DWS Small Cap Growth VIP) investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Equity Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS'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, DWS provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, the Fund's performance (Class A shares) was in the 2nd 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 outperformed its benchmark in the one-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2010.

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 DWS 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 a 0.10% fee paid to DWS 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, 2010). 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, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS 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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and its affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS 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 DWS related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of

DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

Notes

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2SMCG-2 (R-025835-1 2/12)

DECEMBER 31, 2011

ANNUAL REPORT

DWS VARIABLE SERIES II

DWS Unconstrained Income VIP

(formerly DWS Strategic Income VIP)

DWS INVESTMENTS

Deutsche Bank Group

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

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality and non-rated securities present greater risk of loss than investments in higher-quality securities. The Fund may use derivatives, including as part of its Global Tactical Asset Allocation (GTAA) strategy. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The fund may lend securities to approved institutions. See the prospectus for details.

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

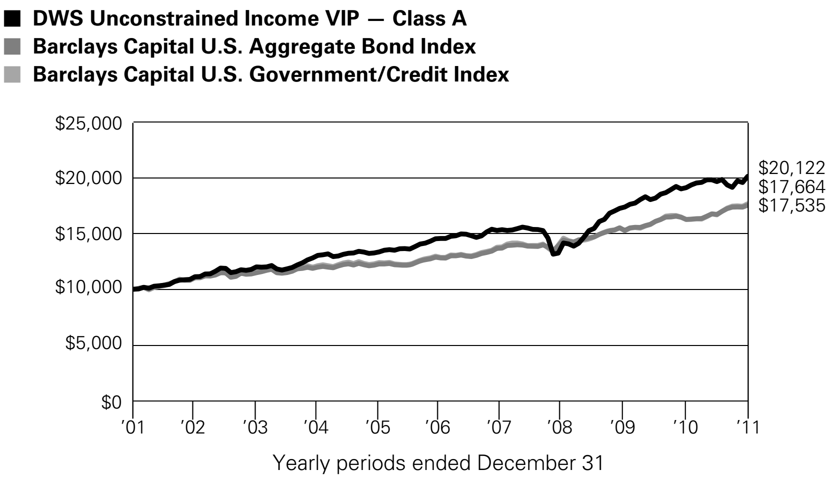
Performance Summary

December 31, 2011 (Unaudited)

Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please contact your participating insurance company for the Fund's most recent month-end performance. Performance doesn't reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option. These charges and fees will reduce returns.

The gross expense ratio of the Fund, as stated in the fee table of the prospectus dated September 22, 2011 is 0.95% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in DWS Unconstrained Income VIP



The Barclays Capital U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with average maturities of one year or more.

*On September 22, 2011, the Barclays Capital U.S. Aggregate Bond Index replaced the Barclays Capital U.S. Government/Credit Index as the fund's benchmark index because portfolio management believes that it better reflects the fund's current investment strategy.

The Barclays Capital U.S. Government/Credit Index is an unmanaged index comprising intermediate- and long-term government and investment-grade corporate debt securities.

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

Comparative Results

DWS Unconstrained Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,531	$14,223	$13,835	$20,122
	Average annual total return	5.31%	12.46%	6.71%	7.24%
Blended Capital U.S. Aggregate Bond Index*	Growth of $10,000	$10,784	$12,171	$13,701	$17,535
	Average annual total return	7.84%	6.77%	6.50%	5.78%
Barclays Capital U.S. Government/Credit Index	Growth of $10,000	$10,874	$12,115	$13,731	$17,664
	Average annual total return	8.74%	6.60%	6.55%	5.85%

The growth of $10,000 is cumulative.

Management Summary

The Class A shares of the Fund returned 5.31% (unadjusted for contract charges) during the 12-month period ended December 31, 2011. This compares with a return of 7.84% for the Barclays Capital U.S. Aggregate Bond Index.[1]

The Fund was known as DWS Strategic Income VIP until September 22, 2011, when its name, the investment objective and strategy changed. The most significant change is that we will not be constrained in the management of the Fund relative to an index, and we may shift the allocations of the Fund's holdings, favoring different types of securities at different times while maintaining variety in terms of the companies and industries represented in the Fund's holdings.

The primary reason for the Fund's underperformance was its underweight in U.S. Treasuries, which performed much better than the other segments of the bond market in 2011.[2] The Fund held an average weighting of 5% in Treasuries throughout the course of the period ended December 31, 2011, while the benchmark had an average weighting of over 53%. We typically hold a light weighting in Treasuries, since we believe we can add more value by investing in other, higher-yielding, market segments.

The Fund held weightings of 48% and 27% in investment-grade corporate and high-yield bonds, respectively, as of December 31, 2011. During the first half of the period, these segments performed very well as investors' heightened risk appetites fueled a continued search for yield. Both asset classes sold off in the latter part of the period, however, weighing on the Fund's relative performance. Similarly, the Fund's positions in commercial mortgage-backed securities (2% of assets as of December 31, 2011) and emerging-markets debt (13%) helped performance in the first half of the period, detracted amid the selloff in higher-risk assets and made a modest contribution to performance overall.[3,4] Our currency positioning and global tactical asset allocation strategy were modest detractors from performance.[5]

We see a number of positive factors remaining in place during the year ahead, including low short-term interest rates; slow, steady global growth; and a steady credit outlook for U.S. corporations. At the same time, however, a number of risks continue to overhang the markets, most notably the ongoing debt crisis in Europe. Through our ability to invest across the full range of the fixed-income asset class, we will look to capitalize on value opportunities and at the same time strive to manage the impact of potential risk factors.

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Portfolio Managers, Deutsche Investment Management Americas Inc.

Thomas Picciochi
Robert Wang
Portfolio Managers, QS Investors, LLC,
Subadvisor to the Fund

1 The Barclays Capital U.S. Aggregate Bond Index tracks the performance of the broad U.S. investment-grade, fixed-rate bond market, including both government and corporate bonds.

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

2 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

3 Mortgage-backed securities (MBS) are secured by loans on residential property.

4 Commercial mortgage-backed securities (CMBS) are secured by loans on a commercial property.

5 The global tactical asset allocation (GTAA) strategy seeks to identify the relative values among the global bond, currency and equity markets, and then to benefit from the disparities through investments including, but not limited to, futures, options and currency forwards.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	12/31/11	12/31/10
Corporate Bonds	66%	62%
Government & Agency Obligations	11%	17%
Cash Equivalents	8%	5%
Collateralized Mortgage Obligations	4%	3%
Convertible Bonds	3%	0%
Loan Participations and Assignments	3%	4%
Commercial Mortgage-Backed Securities	2%	3%
Mortgage-Backed Securities Pass-Throughs	1%	5%
Preferred Securities	1%	1%
Asset-Backed	1%	0%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	12/31/11	12/31/10
AAA	8%	20%
AA	3%	2%
A	9%	8%
BBB	23%	18%
BB	24%	21%
B	25%	23%
CCC	4%	5%
Not Rated	4%	3%
	100%	100%

Interest Rate Sensitivity	12/31/11	12/31/10
Effective Maturity	6.0 years	7.2 years
Effective Duration	4.4 years	4.7 years

Asset allocation and interest rate sensitivity are subject to change.

The quality ratings represent the higher 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. Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Ratings are relative and subjective and are not absolute standards of quality. Credit quality does not remove market risk and is subject to change.

Effective maturity is the weighted average of the maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Effective duration is an approximate measure of the Fund's sensitivity to interest rate changes taking into consideration any maturity shortening features.

For more complete details about the Fund's investment portfolio, see page 6.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at 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. The Fund's portfolio holdings are also posted on www.dws-investments.com from time to time. Please see the Fund's current prospectus for more information.

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 64.5%		
Consumer Discretionary 8.4%		
AMC Entertainment, Inc., 8.0%, 3/1/2014	105,000	103,687
AMC Networks, Inc., 144A, 7.75%, 7/15/2021	15,000	16,313
American Achievement Corp., 144A, 10.875%, 4/15/2016	45,000	34,650
Asbury Automotive Group, Inc., 8.375%, 11/15/2020	80,000	82,000
Avis Budget Car Rental LLC:		
8.25%, 1/15/2019	95,000	94,287
9.625%, 3/15/2018	45,000	46,575
Bresnan Broadband Holdings LLC, 144A, 8.0%, 12/15/2018	95,000	98,800
Cablevision Systems Corp.:		
7.75%, 4/15/2018	10,000	10,600
8.0%, 4/15/2020	10,000	10,725
Caesar's Entertainment Operating Co., Inc., 11.25%, 6/1/2017	240,000	254,700
CCO Holdings LLC:		
6.5%, 4/30/2021	215,000	217,687
7.0%, 1/15/2019	20,000	20,850
7.25%, 10/30/2017	90,000	94,837
7.375%, 6/1/2020	10,000	10,550
7.875%, 4/30/2018	40,000	42,650
8.125%, 4/30/2020	25,000	27,375
Cequel Communications Holdings I LLC, 144A, 8.625%, 11/15/2017	270,000	286,200
Clear Channel Communications, Inc., 9.0%, 3/1/2021	25,000	21,063
Clear Channel Worldwide Holdings, Inc.:		
Series A, 9.25%, 12/15/2017	15,000	16,125
Series B, 9.25%, 12/15/2017	25,000	27,000
Crown Media Holdings, Inc., 10.5%, 7/15/2019	55,000	57,888
Cumulus Media, Inc., 144A, 7.75%, 5/1/2019	25,000	22,188
DISH DBS Corp.:		
6.625%, 10/1/2014	65,000	69,388
6.75%, 6/1/2021	10,000	10,775
7.125%, 2/1/2016	155,000	167,012
EH Holding Corp., 144A, 7.625%, 6/15/2021	40,000	42,000
Fontainebleau Las Vegas Holdings LLC, 144A, 11.0%, 6/15/2015*	65,000	41
Ford Motor Co., 7.45%, 7/16/2031	65,000	78,000
Great Canadian Gaming Corp., 144A, 7.25%, 2/15/2015	55,000	55,550
Hertz Corp.:		
6.75%, 4/15/2019	115,000	115,287
7.5%, 10/15/2018	155,000	161,975
8.875%, 1/1/2014	26,000	26,130
Kohl's Corp., 4.0%, 11/1/2021	90,000	92,209
Lear Corp.:		
7.875%, 3/15/2018	40,000	43,300
8.125%, 3/15/2020	40,000	44,000
Limited Brands, Inc., 7.0%, 5/1/2020	20,000	21,650
Lions Gate Entertainment, Inc., 144A, 10.25%, 11/1/2016	95,000	95,475
Macy's Retail Holdings, Inc., 8.125%, 7/15/2015	10,000	11,546
Mattel, Inc., 5.45%, 11/1/2041	141,400	143,178
Mediacom Broadband LLC, 8.5%, 10/15/2015	110,000	113,300
Mediacom LLC, 9.125%, 8/15/2019	30,000	31,838
MGM Resorts International:		
7.625%, 1/15/2017	100,000	95,250
9.0%, 3/15/2020	65,000	71,987
10.375%, 5/15/2014	45,000	51,413
11.125%, 11/15/2017	50,000	57,000
Michaels Stores, Inc., 13.0%, 11/01/2016	25,000	26,685
National CineMedia LLC, 7.875%, 7/15/2021	45,000	44,606
Neiman Marcus Group, Inc., 10.375%, 10/15/2015	25,000	25,969
Palace Entertainment Holdings LLC, 144A, 8.875%, 4/15/2017	75,000	74,437
Penske Automotive Group, Inc., 7.75%, 12/15/2016	175,000	179,375
PVH Corp., 7.375%, 5/15/2020	25,000	27,125
Regal Entertainment Group, 9.125%, 8/15/2018	35,000	37,538
Sabre Holdings Corp., 8.35%, 3/15/2016	55,000	42,075
Seminole Indian Tribe of Florida:		
144A, 7.75%, 10/1/2017	40,000	41,600
144A, 7.804%, 10/1/2020	70,000	68,235
Servicios Corporativos Javer SAPI de CV, 144A, 9.875%, 4/6/2021	100,000	91,000
Sirius XM Radio, Inc., 144A, 8.75%, 4/1/2015	155,000	169,725
Sonic Automotive, Inc., Series B, 9.0%, 3/15/2018	95,000	99,987
Standard Pacific Corp.:		
8.375%, 5/15/2018	100,000	95,000
10.75%, 9/15/2016	80,000	84,000
Time Warner Cable, Inc., 4.0%, 9/1/2021	180,000	182,111
Time Warner, Inc., 4.0%, 1/15/2022	140,000	144,406
Toys "R" Us-Delaware, Inc., 144A, 7.375%, 9/1/2016	35,000	35,088
Travelport LLC, 9.0%, 3/1/2016	10,000	5,525
UCI International, Inc., 8.625%, 2/15/2019	20,000	19,400
Unitymedia Hessen GmbH & Co., KG, 144A, 8.125%, 12/1/2017	200,000	211,250
Univision Communications, Inc.:		
144A, 6.875%, 5/15/2019	10,000	9,650
144A, 7.875%, 11/1/2020	25,000	25,375
UPC Holding BV:		
144A, 8.375%, 8/15/2020 EUR	50,000	60,992
144A, 9.75%, 4/15/2018 EUR	100,000	131,690
Valassis Communications, Inc., 6.625%, 2/1/2021	30,000	27,900
Viacom, Inc., 3.875%, 12/15/2021	160,000	163,339

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

	Principal Amount ($)(a)	Value ($)
Visteon Corp., 144A, 6.75%, 4/15/2019	75,000	74,812
WPP Finance 2010, 144A, 4.75%, 11/21/2021	85,000	84,381
Wyndham Worldwide Corp., 5.75%, 2/1/2018	210,000	222,310
Wynn Las Vegas LLC, 7.75%, 8/15/2020	50,000	55,500
Yonkers Racing Corp., 144A, 11.375%, 7/15/2016	60,000	61,800
		5,817,940
Consumer Staples 2.3%		
Alliance One International, Inc., 10.0%, 7/15/2016	25,000	22,500
Altria Group, Inc., 9.95%, 11/10/2038	145,000	220,542
American Rock Salt Co., LLC, 144A, 8.25%, 5/1/2018	60,000	57,600
B&G Foods, Inc., 7.625%, 1/15/2018	35,000	37,187
Central Garden & Pet Co., 8.25%, 3/1/2018	35,000	34,300
Darling International, Inc., 8.5%, 12/15/2018	80,000	88,800
Del Monte Corp., 7.625%, 2/15/2019	80,000	76,800
Dole Food Co., Inc., 144A, 8.0%, 10/1/2016	35,000	36,487
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	85,000	75,225
NBTY, Inc., 9.0%, 10/1/2018	25,000	27,500
Reynolds American, Inc., 6.75%, 6/15/2017	200,000	227,326
Rite Aid Corp.:		
7.5%, 3/1/2017	10,000	9,988
8.0%, 8/15/2020	75,000	82,875
Safeway, Inc., 4.75%, 12/1/2021	135,000	138,289
Smithfield Foods, Inc.:		
7.75%, 7/1/2017	220,000	240,900
10.0%, 7/15/2014	85,000	98,812
Stater Bros. Holdings, Inc., 7.375%, 11/15/2018	30,000	31,650
SUPERVALU, Inc., 8.0%, 5/1/2016	35,000	36,138
TreeHouse Foods, Inc., 7.75%, 3/1/2018	25,000	27,063
		1,569,982
Energy 8.2%		
Allis-Chalmers Energy, Inc., 9.0%, 1/15/2014	24,000	23,880
Alpha Natural Resources, Inc., 6.0%, 6/1/2019	60,000	58,200
Anadarko Petroleum Corp., 6.375%, 9/15/2017	215,000	249,214
Arch Coal, Inc.:		
144A, 7.0%, 6/15/2019	20,000	20,400
7.25%, 10/1/2020	20,000	20,450
144A, 7.25%, 6/15/2021	35,000	35,963
8.75%, 8/1/2016	90,000	98,325
Berry Petroleum Co., 6.75%, 11/1/2020	90,000	90,900
Bill Barrett Corp.:		
7.625%, 10/1/2019	10,000	10,450
9.875%, 7/15/2016	40,000	44,000
BreitBurn Energy Partners LP, 8.625%, 10/15/2020	50,000	52,313
Bristow Group, Inc., 7.5%, 9/15/2017	70,000	72,800
Chesapeake Oilfield Operating LLC, 144A, 6.625%, 11/15/2019	25,000	26,000
CITGO Petroleum Corp., 144A, 11.5%, 7/1/2017	105,000	116,025
CONSOL Energy, Inc.:		
144A, 6.375%, 3/1/2021	15,000	15,150
8.0%, 4/1/2017	165,000	180,675
8.25%, 4/1/2020	60,000	66,300
Continental Resources, Inc.:		
7.125%, 4/1/2021	30,000	32,550
7.375%, 10/1/2020	35,000	38,150
8.25%, 10/1/2019	20,000	22,000
Crestwood Midstream Partners LP, 144A, 7.75%, 4/1/2019	160,000	155,600
Crosstex Energy LP, 8.875%, 2/15/2018	55,000	60,087
Dresser-Rand Group, Inc., 144A, 6.5%, 5/1/2021	75,000	76,687
Eagle Rock Energy Partners LP, 144A, 8.375%, 6/1/2019	95,000	95,000
El Paso Corp., 7.25%, 6/1/2018	55,000	60,219
Energy Transfer Equity LP, 7.5%, 10/15/2020	35,000	38,238
EQT Corp., 4.875%, 11/15/2021	290,000	292,738
Frontier Oil Corp., 6.875%, 11/15/2018	55,000	56,375
Genesis Energy LP, 7.875%, 12/15/2018	40,000	40,000
Global Geophysical Services, Inc., 10.5%, 5/1/2017	130,000	122,200
Harvest Operations Corp., 144A, 6.875%, 10/1/2017	25,000	25,875
Holly Energy Partners LP, 8.25%, 3/15/2018	55,000	57,750
Inergy LP:		
6.875%, 8/1/2021	7,000	7,035
7.0%, 10/1/2018	60,000	60,900
IPIC GMTN Ltd., 144A, 5.5%, 3/1/2022	250,000	250,000
KazMunayGaz National Co., 144A, 6.375%, 4/9/2021	400,000	406,000
Kinder Morgan Energy Partners LP, 5.8%, 3/1/2021	194,000	219,544
Kodiak Oil & Gas Corp., 144A, 8.125%, 12/1/2019	25,000	25,906
Linn Energy LLC:		
144A, 6.5%, 5/15/2019	50,000	49,625
7.75%, 2/1/2021	60,000	62,400
MEG Energy Corp., 144A, 6.5%, 3/15/2021	40,000	40,900
Newfield Exploration Co., 7.125%, 5/15/2018	90,000	96,075
Nexen, Inc., 5.875%, 3/10/2035	75,000	76,534
Oasis Petroleum, Inc., 6.5%, 11/1/2021	25,000	24,813
Offshore Group Investments Ltd., 11.5%, 8/1/2015	10,000	10,813
Peabody Energy Corp.:		
144A, 6.0%, 11/15/2018	20,000	20,400
144A, 6.25%, 11/15/2021	25,000	25,875
Plains All American Pipeline LP, 5.0%, 2/1/2021	170,000	187,272
Plains Exploration & Production Co.:		
6.75%, 2/1/2022	65,000	68,087
7.625%, 6/1/2018	60,000	63,600

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

	Principal Amount ($)(a)	Value ($)
Quicksilver Resources, Inc., 11.75%, 1/1/2016	15,000	17,025
Range Resources Corp., 6.75%, 8/1/2020	20,000	22,200
Regency Energy Partners LP:		
6.875%, 12/1/2018	35,000	37,188
9.375%, 6/1/2016	115,000	126,500
Reliance Holdings U.S.A., Inc., 144A, 6.25%, 10/19/2040	250,000	222,274
SandRidge Energy, Inc.:		
7.5%, 3/15/2021	50,000	49,625
144A, 8.0%, 6/1/2018	45,000	45,450
SESI LLC:		
6.375%, 5/1/2019	40,000	40,700
144A, 7.125%, 12/15/2021	115,000	120,750
Stone Energy Corp.:		
6.75%, 12/15/2014	95,000	93,575
8.625%, 2/1/2017	25,000	25,500
Sunoco Logistics Partners Operations LP, 4.65%, 2/15/2022	100,000	102,239
Swift Energy Co., 144A, 7.875%, 3/1/2022	70,000	69,125
Transocean, Inc.:		
6.375%, 12/15/2021	120,000	127,546
6.5%, 11/15/2020	215,000	222,093
Venoco, Inc., 8.875%, 2/15/2019	105,000	94,500
WPX Energy, Inc.:		
144A, 5.25%, 1/15/2017	75,000	75,375
144A, 6.0%, 1/15/2022	55,000	56,306
Xinergy Corp., 144A, 9.25%, 5/15/2019	60,000	50,700
		5,648,964

Financials 17.3%

	Principal Amount ($)(a)	Value ($)
Akbank TAS, 144A, 5.125%, 7/22/2015	145,000	140,650
Algoma Acquisition Corp., 144A, 9.875%, 6/15/2015	85,000	73,100
Ally Financial, Inc.:		
6.25%, 12/1/2017	95,000	91,637
8.0%, 3/15/2020	115,000	117,875
8.3%, 2/12/2015	135,000	142,425
Alrosa Finance SA, 144A, 7.75%, 11/3/2020	200,000	199,000
American International Group, Inc.:		
Series G, 5.6%, 10/18/2016	290,000	279,513
7.25%, 5/23/2022	150,000	147,150
Antero Resources Finance Corp.:		
144A, 7.25%, 8/1/2019	50,000	51,250
9.375%, 12/1/2017	30,000	32,400
Aristotle Holding, Inc., 144A, 4.75%, 11/15/2021	290,000	300,084
Ashton Woods U.S.A. LLC, 144A, Step-up Coupon, 0% to 6/30/2012, 11.0% to 6/30/2015	75,400	57,304
Banco de Bogota SA, 144A, 5.0%, 1/15/2017	200,000	201,586
Banco do Brasil SA, 144A, 5.875%, 1/26/2022	121,000	121,121
Bank of America Corp., 5.0%, 5/13/2021	245,000	223,155
Barclays Bank PLC, 5.14%, 10/14/2020	140,000	118,508
BBVA Bancomer SA, 144A, 6.5%, 3/10/2021	290,000	279,487
BG Energy Capital PLC, 144A, 4.0%, 10/15/2021	200,000	206,154
BHP Billiton Finance U.S.A. Ltd., 3.25%, 11/21/2021	190,000	195,624
Braskem America Finance Co., 144A, 7.125%, 7/22/2041	200,000	192,250
Calpine Construction Finance Co., LP, 144A, 8.0%, 6/1/2016	200,000	216,000
Capital One Financial Corp., 3.15%, 7/15/2016	95,000	95,407
Case New Holland, Inc., 7.75%, 9/1/2013	45,000	47,813
CCL Finance Ltd., 144A, 9.5%, 8/15/2014	100,000	111,375
CIT Group, Inc.:		
Series C, 144A, 5.25%, 4/1/2014	275,000	273,969
7.0%, 5/1/2015	970	972
144A, 7.0%, 5/4/2015	105,000	105,131
144A, 7.0%, 5/2/2017	355,000	354,556
Citigroup, Inc.:		
4.5%, 1/14/2022	65,000	62,531
6.125%, 11/21/2017	145,000	154,748
CNA Financial Corp., 5.75%, 8/15/2021	75,000	76,532
Country Garden Holdings Co., 144A, 11.125%, 2/23/2018	200,000	173,000
E*TRADE Financial Corp.:		
6.75%, 6/1/2016	105,000	101,850
12.5%, 11/30/2017	50,000	56,500
Felcor Lodging LP, (REIT), 6.75%, 6/1/2019	70,000	67,200
Ford Motor Credit Co., LLC, 7.5%, 8/1/2012	500,000	516,059
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018	20,000	20,950
FUEL Trust, 144A, 3.984%, 6/15/2016	290,000	289,961
General Electric Capital Corp.:		
4.65%, 10/17/2021	100,000	104,367
5.3%, 2/11/2021	75,000	80,171
HCP, Inc., (REIT), 5.375%, 2/1/2021	143,000	149,919
Hellas Telecommunications Finance SCA, 144A, 8.985%**, 7/15/2015 (PIK)* EUR	109,187	85
Hexion U.S. Finance Corp., 8.875%, 2/1/2018	340,000	318,750
Host Hotels & Resorts LP, (REIT), 6.875%, 11/1/2014	165,000	168,300
HSBC Finance Corp., 6.676%, 1/15/2021	120,000	124,128
International Lease Finance Corp.:		
5.75%, 5/15/2016	20,000	18,551
6.25%, 5/15/2019	50,000	46,190
8.625%, 9/15/2015	40,000	41,000
8.75%, 3/15/2017	180,000	185,400
Intesa Sanpaolo SpA, 144A, 2.906%**, 2/24/2014	205,000	180,491
Jefferies Group, Inc., 5.125%, 4/13/2018	290,000	255,200
JPMorgan Chase & Co., 4.35%, 8/15/2021	405,000	409,012
Level 3 Escrow, Inc., 144A, 8.125%, 7/1/2019	75,000	73,875

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

	Principal Amount ($)(a)	Value ($)
Lukoil International Finance BV, 144A, 6.656%, 6/7/2022	200,000	200,000
Marfrig Holding Europe BV, 144A, 8.375%, 5/9/2018	200,000	147,000
Morgan Stanley:		
5.5%, 7/28/2021	145,000	134,072
5.75%, 1/25/2021	145,000	135,257
MPT Operating Partnership LP, (REIT), 6.875%, 5/1/2021	50,000	49,563
Navios Maritime Acquisition Corp., 8.625%, 11/1/2017	25,000	18,125
Nielsen Finance LLC, 11.5%, 5/1/2016	13,000	14,885
NII Capital Corp., 7.625%, 4/1/2021	70,000	69,475
Nuveen Investments, Inc.:		
10.5%, 11/15/2015	115,000	114,137
144A, 10.5%, 11/15/2015	95,000	93,337
Odebrecht Finance Ltd., 144A, 6.0%, 4/5/2023	145,000	145,362
OMEGA Healthcare Investors, Inc., (REIT), 6.75%, 10/15/2022	10,000	10,050
Qtel International Finance Ltd., 144A, 4.75%, 2/16/2021	200,000	201,500
Reynolds Group Issuer, Inc.:		
144A, 6.875%, 2/15/2021	100,000	99,500
144A, 7.125%, 4/15/2019	100,000	101,750
Santander U.S. Debt SA Unipersonal, 144A, 3.724%, 1/20/2015	145,000	131,662
Shinhan Bank, 144A, 4.125%, 10/4/2016	145,000	145,993
Susser Holdings LLC, 8.5%, 5/15/2016	30,000	32,363
Telecom Italia Capital SA, 4.95%, 9/30/2014	174,000	161,507
Telemovil Finance Co., Ltd., 144A, 8.0%, 10/1/2017	100,000	102,500
The Goldman Sachs Group, Inc., 5.25%, 7/27/2021	390,000	380,461
Tomkins LLC, 9.0%, 10/1/2018	36,000	39,915
Toys "R" Us Property Co. I, LLC, 10.75%, 7/15/2017	50,000	54,688
UniCredit Luxembourg Finance SA, 144A, 6.0%, 10/31/2017	290,000	218,241
Vale Overseas Ltd., 6.25%, 1/23/2017	250,000	281,729
Virgin Media Finance PLC, Series 1, 9.5%, 8/15/2016	300,000	336,750
Virgin Media Secured Finance PLC, 6.5%, 1/15/2018	375,000	398,437
Xstrata Canada Financial Corp., 144A, 4.95%, 11/15/2021	115,000	117,487
		11,986,012
Health Care 3.1%		
Amgen, Inc., 3.875%, 11/15/2021	190,000	191,732
Aviv Healthcare Properties LP, 7.75%, 2/15/2019	40,000	39,200
Cigna Corp., 4.0%, 2/15/2022	290,000	287,313
Community Health Systems, Inc., 8.875%, 7/15/2015	48,000	49,560
Gilead Sciences, Inc., 5.65%, 12/1/2041	290,000	321,077
HCA Holdings, Inc., 7.75%, 5/15/2021	105,000	106,838
HCA, Inc.:		
6.5%, 2/15/2020	210,000	217,875
7.5%, 2/15/2022	155,000	158,487
7.875%, 2/15/2020	365,000	394,200
8.5%, 4/15/2019	45,000	49,275
Mylan, Inc., 144A, 7.875%, 7/15/2020	15,000	16,556
STHI Holding Corp., 144A, 8.0%, 3/15/2018	60,000	61,650
Tenet Healthcare Corp., 144A, 6.25%, 11/1/2018	100,000	101,750
Vanguard Health Holding Co. II, LLC, 8.0%, 2/1/2018	40,000	39,700
Warner Chilcott Co., LLC, 7.75%, 9/15/2018	75,000	76,594
		2,111,807
Industrials 4.8%		
Accuride Corp., 9.5%, 8/1/2018	75,000	72,375
Actuant Corp., 6.875%, 6/15/2017	40,000	41,200
ARAMARK Corp., 8.5%, 2/1/2015	20,000	20,500
ARAMARK Holdings Corp., 144A, 8.625%, 5/1/2016 (PIK)	20,000	20,600
Armored Autogroup, Inc., 144A, 9.25%, 11/1/2018	105,000	81,112
BE Aerospace, Inc.:		
6.875%, 10/1/2020	35,000	38,150
8.5%, 7/1/2018	105,000	114,975
Belden, Inc.:		
7.0%, 3/15/2017	45,000	44,944
9.25%, 6/15/2019	40,000	42,700
Boart Longyear Management Pty Ltd., 144A, 7.0%, 4/1/2021	35,000	35,525
Bombardier, Inc., 144A, 7.75%, 3/15/2020	45,000	49,050
Briggs & Stratton Corp., 6.875%, 12/15/2020	35,000	35,875
Casella Waste Systems, Inc., 7.75%, 2/15/2019	110,000	107,525
Cenveo Corp.:		
8.875%, 2/1/2018	100,000	87,250
144A, 10.5%, 8/15/2016	55,000	46,338
CHC Helicopter SA, 144A, 9.25%, 10/15/2020	215,000	193,500
Congoleum Corp., 9.0%, 12/31/2017 (PIK)	43,518	25,240
Deluxe Corp., 144A, 7.0%, 3/15/2019	30,000	29,175
Ducommun, Inc., 144A, 9.75%, 7/15/2018	65,000	65,975
DynCorp International, Inc., 10.375%, 7/1/2017	85,000	73,950
Florida East Coast Railway Corp., 8.125%, 2/1/2017	40,000	39,500
FTI Consulting, Inc., 6.75%, 10/1/2020	145,000	149,712
Garda World Security Corp., 144A, 9.75%, 3/15/2017	60,000	60,600
H&E Equipment Services, Inc., 8.375%, 7/15/2016	110,000	112,475
Huntington Ingalls Industries, Inc.:		
144A, 6.875%, 3/15/2018	30,000	29,400
144A, 7.125%, 3/15/2021	10,000	9,800
Interline Brands, Inc., 7.0%, 11/15/2018	50,000	51,750

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

	Principal Amount ($)(a)	Value ($)
Kansas City Southern de Mexico SA de CV, 8.0%, 2/1/2018	105,000	114,975
Kansas City Southern Railway Co., 8.0%, 6/1/2015	100,000	106,125
Masco Corp., 7.125%, 3/15/2020	145,000	146,337
Meritor, Inc.:		
8.125%, 9/15/2015	55,000	49,225
10.625%, 3/15/2018	60,000	56,400
Navios Maritime Holdings, Inc., 8.125%, 2/15/2019	135,000	100,575
Nortek, Inc., 144A, 8.5%, 4/15/2021	125,000	105,625
Oshkosh Corp.:		
8.25%, 3/1/2017	10,000	10,400
8.5%, 3/1/2020	25,000	25,750
Owens Corning, Inc., 9.0%, 6/15/2019	167,000	199,240
Ply Gem Industries, Inc., 13.125%, 7/15/2014	95,000	84,075
RailAmerica, Inc., 9.25%, 7/1/2017	31,000	33,868
RBS Global, Inc. & Rexnord Corp., 8.5%, 5/1/2018	120,000	127,200
Sitel LLC, 11.5%, 4/1/2018	95,000	70,063
Spirit AeroSystems, Inc., 6.75%, 12/15/2020	75,000	78,375
SPX Corp., 6.875%, 9/1/2017	20,000	21,600
Titan International, Inc., 7.875%, 10/1/2017	160,000	166,400
TransDigm, Inc., 7.75%, 12/15/2018	65,000	69,875
Tutor Perini Corp., 7.625%, 11/1/2018	55,000	51,975
		3,297,279

Information Technology 2.2%

	Principal Amount ($)(a)	Value ($)
Allen Systems Group, Inc., 144A, 10.5%, 11/15/2016	35,000	30,450
Amkor Technology, Inc.:		
6.625%, 6/1/2021	10,000	9,625
7.375%, 5/1/2018	45,000	46,013
Aspect Software, Inc., 10.625%, 5/15/2017	60,000	62,250
Avaya, Inc., 144A, 7.0%, 4/1/2019	145,000	140,650
CDW LLC, 11.0%, 10/12/2015	9,000	9,450
CommScope, Inc., 144A, 8.25%, 1/15/2019	85,000	85,000
eAccess Ltd., 144A, 8.25%, 4/1/2018	60,000	57,000
Equinix, Inc.:		
7.0%, 7/15/2021	40,000	42,200
8.125%, 3/1/2018	140,000	152,600
Fidelity National Information Services, Inc.:		
7.625%, 7/15/2017	20,000	21,650
144A, 7.625%, 7/15/2017	10,000	10,775
First Data Corp.:		
144A, 7.375%, 6/15/2019	30,000	28,200
144A, 8.875%, 8/15/2020	85,000	85,000
Freescale Semiconductor, Inc., 144A, 9.25%, 4/15/2018	190,000	203,062
Jabil Circuit, Inc., 7.75%, 7/15/2016	30,000	33,450
MasTec, Inc., 7.625%, 2/1/2017	65,000	67,600
Sanmina-SCI Corp., 144A, 7.0%, 5/15/2019	45,000	43,875
Seagate HDD Cayman, 144A, 7.0%, 11/1/2021	50,000	51,250
Sensata Technologies BV, 144A, 6.5%, 5/15/2019	50,000	49,375
SunGard Data Systems, Inc., 10.25%, 8/15/2015	215,000	222,794
Unisys Corp., 144A, 12.75%, 10/15/2014	41,000	46,586
		1,498,855

Materials 7.6%

	Principal Amount ($)(a)	Value ($)
Aleris International, Inc., 7.625%, 2/15/2018	40,000	39,000
APERAM, 144A, 7.375%, 4/1/2016	150,000	128,250
Appleton Papers, Inc., 11.25%, 12/15/2015	25,000	22,500
ArcelorMittal, 6.125%, 6/1/2018	250,000	246,890
Ball Corp.:		
7.125%, 9/1/2016	30,000	32,625
7.375%, 9/1/2019	25,000	27,375
Beverage Packaging Holdings Luxembourg II SA, 144A, 8.0%, 12/15/2016 EUR	70,000	77,008
Boise Paper Holdings LLC, 8.0%, 4/1/2020	30,000	31,725
BWAY Parent Co., Inc., 10.125%, 11/1/2015 (PIK)	44,531	43,195
Celanese U.S. Holdings LLC, 6.625%, 10/15/2018	35,000	37,187
China Oriental Group Co., Ltd., 144A, 8.0%, 8/18/2015	100,000	85,375
Clearwater Paper Corp., 7.125%, 11/1/2018	65,000	67,600
Clondalkin Acquisition BV, 144A, 2.546%**, 12/15/2013	75,000	69,750
Corp Nacional del Cobre de Chile, 144A, 3.875%, 11/3/2021	200,000	203,632
Crown Americas LLC:		
6.25%, 2/1/2021	10,000	10,450
7.625%, 5/15/2017	30,000	32,738
Dow Chemical Co., 5.25%, 11/15/2041	240,000	252,450
Essar Steel Algoma, Inc., 144A, 9.375%, 3/15/2015	240,000	232,800
Exopack Holding Corp., 144A, 10.0%, 6/1/2018	40,000	40,000
FMG Resources (August 2006) Pty Ltd.:		
144A, 7.0%, 11/1/2015	25,000	25,250
144A, 8.25%, 11/1/2019	90,000	91,575
GEO Specialty Chemicals, Inc.:		
144A, 7.5%, 3/31/2015 (PIK)	120,175	105,634
10.0%, 3/31/2015	119,040	112,493
Georgia-Pacific LLC, 144A, 5.4%, 11/1/2020	145,000	160,609
Graphic Packaging International, Inc.:		
7.875%, 10/1/2018	10,000	10,650
9.5%, 6/15/2017	130,000	142,350
Greif, Inc., 7.75%, 8/1/2019	195,000	210,600
Hexcel Corp., 6.75%, 2/1/2015	93,000	94,279

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	Principal Amount ($)(a)	Value ($)
Huntsman International LLC:		
8.625%, 3/15/2020	60,000	63,600
8.625%, 3/15/2021	25,000	26,500
International Paper Co., 7.95%, 6/15/2018	145,000	176,498
JMC Steel Group, 144A, 8.25%, 3/15/2018	60,000	58,500
Longview Fibre Paper & Packaging, Inc., 144A, 8.0%, 6/1/2016	60,000	60,000
Lyondell Chemical Co., 8.0%, 11/1/2017	34,000	37,145
LyondellBasell Industries NV, 144A, 6.0%, 11/15/2021	15,000	15,563
Metinvest BV, 144A, 10.25%, 5/20/2015	100,000	94,230
Nalco Co., 144A, 6.625%, 1/15/2019	29,000	33,567
Newcrest Finance Pty Ltd., 144A, 4.45%, 11/15/2021	240,000	236,729
NewMarket Corp., 7.125%, 12/15/2016	110,000	112,475
Novelis, Inc.:		
8.375%, 12/15/2017	160,000	170,000
8.75%, 12/15/2020	110,000	117,975
Owens-Brockway Glass Container, Inc., 7.375%, 5/15/2016	110,000	120,450
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016	90,000	90,000
Phibro Animal Health Corp., 144A, 9.25%, 7/1/2018	10,000	8,675
Polymer Group, Inc., 144A, 7.75%, 2/1/2019	55,000	56,925
Quadra FNX Mining Ltd., 144A, 7.75%, 6/15/2019	115,000	130,094
Rain CII Carbon LLC, 144A, 8.0%, 12/1/2018	45,000	45,112
Sealed Air Corp.:		
144A, 8.125%, 9/15/2019	30,000	32,850
144A, 8.375%, 9/15/2021	30,000	33,150
Silgan Holdings, Inc., 7.25%, 8/15/2016	50,000	53,375
Solo Cup Co., 10.5%, 11/1/2013	170,000	172,550
Southern Copper Corp., 6.75%, 4/16/2040	300,000	300,185
SunCoke Energy, Inc., 144A, 7.625%, 8/1/2019	30,000	30,000
United States Steel Corp., 7.375%, 4/1/2020	80,000	78,000
Verso Paper Holdings LLC, 8.75%, 2/1/2019	25,000	15,250
Viskase Companies, Inc., 144A, 9.875%, 1/15/2018	145,000	146,812
Vulcan Materials Co., 6.5%, 12/1/2016	105,000	108,412
Wolverine Tube, Inc., 6.0%, 6/28/2014	17,539	15,836
		5,274,448

Telecommunication Services 7.4%

		Principal Amount ($)(a)	Value ($)
American Tower Corp., 4.5%, 1/15/2018		125,000	127,158
CC Holdings GS V LLC, 144A, 7.75%, 5/1/2017		350,000	377,125
Cincinnati Bell, Inc.:			
8.25%, 10/15/2017		55,000	55,275
8.375%, 10/15/2020		180,000	179,550
8.75%, 3/15/2018		170,000	157,887
CPI International, Inc., 8.0%, 2/15/2018		45,000	37,463
Cricket Communications, Inc.:			
7.75%, 10/15/2020		310,000	271,250
10.0%, 7/15/2015		100,000	100,000
Crown Castle International Corp., 9.0%, 1/15/2015		195,000	211,331
Digicel Group Ltd., 144A, 10.5%, 4/15/2018		100,000	100,500
Digicel Ltd., 144A, 8.25%, 9/1/2017		300,000	301,500
ERC Ireland Preferred Equity Ltd., 144A, 8.462%**, 2/15/2017 (PIK)	EUR	86,450	280
Frontier Communications Corp.:			
7.875%, 4/15/2015		10,000	10,138
8.25%, 4/15/2017		70,000	71,575
8.5%, 4/15/2020		90,000	92,137
8.75%, 4/15/2022		10,000	9,900
Intelsat Jackson Holdings SA:			
7.25%, 10/15/2020		120,000	121,800
144A, 7.5%, 4/1/2021		150,000	151,687
8.5%, 11/1/2019		100,000	106,000
11.25%, 6/15/2016		60,000	63,038
Intelsat Luxembourg SA:			
11.25%, 2/4/2017		145,000	140,287
11.5%, 2/4/2017 (PIK)		304,218	293,570
144A, 11.5%, 2/4/2017 (PIK)		80,000	77,200
iPCS, Inc., 2.554%**, 5/1/2013		35,000	32,463
MetroPCS Wireless, Inc.:			
6.625%, 11/15/2020		90,000	83,925
7.875%, 9/1/2018		75,000	76,031
Qwest Communications International, Inc.:			
7.125%, 4/1/2018		55,000	57,200
8.0%, 10/1/2015		160,000	170,463
Qwest Corp., 7.625%, 6/15/2015		210,000	232,704
SBA Telecommunications, Inc.:			
8.0%, 8/15/2016		35,000	37,713
8.25%, 8/15/2019		25,000	27,188
Sprint Nextel Corp.:			
8.375%, 8/15/2017		55,000	49,294
144A, 9.0%, 11/15/2018		250,000	262,500
Syniverse Holdings, Inc., 9.125%, 1/15/2019		25,000	26,375
Telefonica Emisiones SAU, 6.421%, 6/20/2016		290,000	303,483
Telesat Canada, 11.0%, 11/1/2015		190,000	204,012
West Corp.:			
7.875%, 1/15/2019		50,000	49,625
8.625%, 10/1/2018		15,000	15,150
Windstream Corp.:			
7.0%, 3/15/2019		60,000	60,600
7.5%, 4/1/2023		60,000	59,250
7.75%, 10/15/2020		35,000	36,181
7.875%, 11/1/2017		205,000	221,912
8.125%, 9/1/2018		70,000	74,988
			5,137,708

Utilities 3.2%

	Principal Amount ($)(a)	Value ($)
Abu Dhabi National Energy Co., 144A, 5.875%, 12/13/2021	200,000	208,000
AES Corp.:		
8.0%, 10/15/2017	10,000	11,000
8.0%, 6/1/2020	175,000	192,500

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	Principal Amount ($)(a)	Value ($)
Calpine Corp.:		
144A, 7.5%, 2/15/2021	80,000	85,600
144A, 7.875%, 7/31/2020	95,000	102,362
Centrais Eletricas Brasileiras SA, 144A, 5.75%, 10/27/2021	200,000	207,800
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024	205,000	91,225
Eskom Holdings SOC Ltd., 144A, 5.75%, 1/26/2021	200,000	203,500
Ferrellgas LP, 6.5%, 5/1/2021	20,000	17,600
IPALCO Enterprises, Inc., 5.0%, 5/1/2018	290,000	284,200
Majapahit Holding BV, 144A, 8.0%, 8/7/2019	290,000	339,305
NRG Energy, Inc.:		
7.375%, 1/15/2017	90,000	93,375
7.625%, 1/15/2018	35,000	35,000
8.25%, 9/1/2020	45,000	45,225
Suburban Propane Partners LP, 7.375%, 3/15/2020	15,000	15,600
Texas Competitive Electric Holdings Co., LLC, Series A, 10.25%, 11/1/2015	50,000	17,750
Toledo Edison Co., 7.25%, 5/1/2020	230,000	286,663
		2,236,705
Total Corporate Bonds (Cost $44,361,656)		**44,579,700**

Asset-Backed 0.6%

Home Equity Loans

	Principal Amount ($)(a)	Value ($)
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	90,755	90,502
Citifinancial Mortgage Securities, Inc., "AFS", Series 2003-4, 5.326%, 10/25/2033	190,000	184,935
Countrywide Home Equity Loan Trust, "2A", Series 2006-I, 0.418%**, 1/15/2037	176,226	124,608
Total Asset-Backed (Cost $393,369)		**400,045**

Commercial Mortgage-Backed Securities 2.3%

	Principal Amount ($)(a)	Value ($)
Citigroup Commercial Mortgage Trust, "AMP3", Series 2006-C5, 144A, 5.501%**, 10/15/2049	125,079	116,979
CS First Boston Mortgage Securities Corp., "H", Series 2002-CKP1, 144A, 7.224%**, 12/15/2035	290,000	290,148
Greenwich Capital Commercial Funding Corp., "AM", Series 2007-GG11, 5.867%, 12/10/2049	290,000	257,233
JPMorgan Chase Commercial Mortgage Securities Corp., "A4", Series 2006-LDP7, 5.875%**, 4/15/2045	140,000	157,126
LB-UBS Commercial Mortgage Trust:		
"A3", Series 2006-C7, 5.347%, 11/15/2038	440,000	471,196
"E", Series 2005-C2, 5.35%**, 4/15/2040	300,000	167,036
Wachovia Bank Commercial Mortgage Trust, "A4", Series 2005-C22, 5.269%**, 12/15/2044	140,000	154,053
Total Commercial Mortgage-Backed Securities (Cost $1,678,408)		**1,613,771**

Collateralized Mortgage Obligations 4.2%

	Principal Amount ($)(a)	Value ($)
Banc of America Mortgage Securities, "2A2", Series 2004-A, 2.841%**, 2/25/2034	161,156	131,672
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 3.152%**, 12/25/2035	230,106	206,043
Countrywide Home Loans:		
"A16", Series 2005-21, 5.0%, 10/25/2035	146,173	143,149
"2A5", Series 2004-13, 5.75%, 8/25/2034	158,469	145,386
Federal National Mortgage Association:		
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038	374,239	44,330
"JS", Series 2004-59, Interest Only, 6.806%**, 4/25/2023	1,065,610	56,129
Government National Mortgage Association:		
"XA", Series 2009-118, 5.0%, 12/20/2039	292,413	293,751
"ID", Series 2003-79, Interest Only, 5.5%, 12/20/2031	164,131	7,919
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 5.535%**, 4/25/2036	488,830	378,292
Merrill Lynch Mortgage Investors Trust:		
"2A1A", Series 2005-A9, 2.518%**, 12/25/2035	29,106	28,477
"2A", Series 2003-A6, 2.779%**, 10/25/2033	114,515	101,633
Morgan Stanley Mortgage Loan Trust, "5A5", Series 2005-4, 5.5%, 8/25/2035	97,413	95,985
Vericrest Opportunity Loan Transferee:		
"M", Series 2010-NPL1, 144A, 6.0%, 5/25/2039	68,731	67,888
"B1", Series 2010-NPL1, 144A, 8.0%, 5/25/2039	336,892	313,131
"A2", Series 2011-NL1A, 144A, 9.077%, 12/26/2050	300,000	299,299
Washington Mutual Mortgage Pass-Through Certificates Trust, "1A1", Series 2005-AR12, 2.482%**, 10/25/2035	75,822	68,736
Wells Fargo Mortgage-Backed Securities Trust:		
"2A3",Series 2004-EE, 2.71%**, 12/25/2034	210,417	182,006
"A3", Series 2005-4, 5.0%, 4/25/2035	52,053	51,892
"B1", Series 2004-1, 5.5%, 2/25/2034	268,634	263,944
"A19", Series 2006-11, 6.0%, 9/25/2036	15,579	15,519
Total Collateralized Mortgage Obligations (Cost $2,967,491)		**2,895,181**

Government & Agency Obligations 10.8%

Other Government Related (b) 2.3%

	Principal Amount ($)(a)	Value ($)
Citibank NA, FDIC Guaranteed, 0.465%**, 5/7/2012	650,000	650,968
Export Credit Bank of Turkey, 144A, 5.375%, 11/4/2016	250,000	246,250

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		Principal Amount ($)(a)	Value ($)
JPMorgan Chase & Co., Series 3, FDIC Guaranteed, 0.824%**, 12/26/2012		232,000	233,360
Nak Naftogaz Ukraine, 9.5%, 9/30/2014		100,000	93,750
Penerbangan Malaysia Bhd., 144A, 5.625%, 3/15/2016		200,000	222,486
Qatari Diar Finance QSC, 144A, 5.0%, 7/21/2020		150,000	159,750
			1,606,564

Sovereign Bonds 4.1%

Dominican Republic, 144A, 7.5%, 5/6/2021		400,000	392,000
Federative Republic of Brazil, 12.5%, 1/5/2016	BRL	250,000	158,156
Mexico Government International Bond, 5.75%, 10/12/2110		150,000	159,750
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	456	106
Republic of Belarus, REG S, 8.75%, 8/3/2015		145,000	126,875
Republic of Croatia, 144A, 6.375%, 3/24/2021		290,000	264,625
Republic of Ghana, 144A, 8.5%, 10/4/2017		150,000	164,250
Republic of Lithuania, 144A, 6.125%, 3/9/2021		300,000	298,500
Republic of Panama, 5.2%, 1/30/2020		100,000	113,250
Republic of Poland, 5.0%, 3/23/2022		300,000	301,500
Republic of Turkey, 5.125%, 3/25/2022		200,000	191,000
Republic of Uruguay, 7.625%, 3/21/2036		60,000	82,950
Republic of Venezuela, 7.65%, 4/21/2025		290,000	179,800
Russian Federation, REG S, 7.5%, 3/31/2030		363,137	421,693
			2,854,455

U.S. Treasury Obligations 4.4%

U.S. Treasury Bills:			
0.003%***, 3/8/2012 (c)		424,000	423,986
0.03%***, 6/28/2012 (c)		4,000	3,999
U.S. Treasury Bond, 3.875%, 8/15/2040		55,000	65,931
U.S. Treasury Notes:			
0.75%, 6/15/2014		500,000	505,430
1.5%, 7/31/2016		1,875,000	1,940,177
2.125%, 8/15/2021		55,000	56,409
			2,995,932
Total Government & Agency Obligations (Cost $7,339,478)			**7,456,951**

Loan Participations and Assignments 2.5%

Senior Loans** 1.4%

Buffets, Inc., Letter of Credit, First Lien, 11.619%, 3/30/2012		12,939	5,693
Charter Communications Operating LLC:			
Replacement Term Loan, 2.3%, 1/31/2012		593	590
Term Loan C, 3.83%, 3/30/2012		205,528	201,384
Term Loan B-2, 7.25%, 3/30/2012		3,082	3,085
Clear Channel Communication, Inc., Term Loan B, 3.946%, 1/31/2012		46,043	34,201
Dunkin' Brands, Inc., New Term Loan B2, 4.0%, 1/31/2012		68,753	67,829
Roundy's Supermarkets, Inc., Second Lien Term Loan, 10.0%, 1/23/2012		65,000	65,203
Syniverse Technologies, Inc., Term Loan B, 5.25%, 1/13/2012		49,500	49,583
Tomkins LLC, New Term Loan B, 4.25%, 1/3/2012		452,386	451,727
Tribune Co., Term Loan B, LIBOR plus 3.0%, 6/4/2014*		88,875	52,214
			931,509

Sovereign Loans 1.1%

Bank of Moscow, 144A, 6.699%, 3/11/2015		250,000	247,500
Gazprom, 144A, 4.95%, 5/23/2016		200,000	200,250
Russian Railways, 5.739%, 4/3/2017		145,000	145,725
Vimpel Communications, 144A, 7.748%, 2/2/2021		200,000	171,250
			764,725
Total Loan Participations and Assignments (Cost $1,749,655)			**1,696,234**

Municipal Bonds and Notes 1.3%

Chicago, IL, Airport Revenue, O'Hare International Airport, Series B, 6.0%, 1/1/2041		145,000	163,876
Massachusetts, State School Building Authority, Sales Tax Revenue, Qualified School Construction Bond, Series A, 4.885%, 7/15/2028 (d)		300,000	338,355
Orlando & Orange County, FL, Expressway Authority Revenue, Series C, 5.0%, 7/1/2040		145,000	152,746
Port Authority of New York & New Jersey, 4.926%, 10/1/2051 (d)		260,000	273,177
Total Municipal Bonds and Notes (Cost $852,110)			**928,154**

Convertible Bonds 2.5%

Consumer Discretionary 0.2%

Group 1 Automotive, Inc., 144A, 3.0%, 3/15/2020		65,000	97,581
Sonic Automotive, Inc., 5.0%, 10/1/2029		25,000	33,094
Virgin Media, Inc., 6.5%, 11/15/2016		17,000	23,524
			154,199

Consumer Staples 0.3%

AEON Co., Ltd., Series 7, 0.3%, 11/22/2013	JPY	2,000,000	30,680
Archer-Daniels-Midland Co., 0.875%, 2/15/2014		50,000	50,250
Molson Coors Brewing Co., 2.5%, 7/30/2013		40,000	42,350
TEM, Series DG, 4.25%, 1/1/2015	EUR	6,390	8,096
Tyson Foods, Inc., 3.25%, 10/15/2013		30,000	39,787
			171,163

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

		Principal Amount ($)(a)	Value ($)
Energy 0.0%			
China Petroleum & Chemical Corp., Zero Coupon, 4/24/2014	HKD	70,000	**10,320**
Financials 0.8%			
Billion Express Investments Ltd., 0.75%, 10/18/2015		100,000	115,850
Boston Properties LP, 144A, 3.625%, 2/15/2014		30,000	32,363
Glory River Holdings Ltd., 1.0%, 7/29/2015	HKD	100,000	12,071
Industrivarden AB, REG S, 1.875%, 2/27/2017	EUR	50,000	57,982
Kloeckner & Co. Financial Services SA, 1.5%, 7/27/2012	EUR	100,000	126,189
Lukoil International Finance BV, 2.625%, 6/16/2015		100,000	101,550
ORIX Corp., Series 3, 1.0%, 3/31/2014	JPY	5,000,000	70,936
			516,941
Health Care 0.4%			
Amgen, Inc., Series B, 0.375%, 2/1/2013		50,000	50,187
Dendreon Corp., 2.875%, 1/15/2016		10,000	7,013
Gilead Sciences, Inc., Series C, 1.0%, 5/1/2014		50,000	54,750
Medtronic, Inc., Series B, 1.625%, 4/15/2013		50,000	50,375
Mylan, Inc., 1.25%, 3/15/2012		20,000	20,050
Shire PLC, 2.75%, 5/9/2014		100,000	118,600
			300,975
Industrials 0.1%			
Asahi Glass Co., Ltd., Zero Coupon, 11/14/2014	JPY	5,000,000	**64,692**
Information Technology 0.5%			
Advanced Micro Devices, Inc., 6.0%, 5/1/2015		50,000	48,813
EMC Corp., Series B, 1.75%, 12/1/2013		20,000	28,700
Hitachi Ltd., Series 8, 0.1%, 12/12/2014	JPY	3,000,000	51,077
Intel Corp., 2.95%, 12/15/2035		90,000	93,712
Microsoft Corp., 144A, Zero Coupon, 6/15/2013		60,000	60,750
SanDisk Corp., 1.0%, 5/15/2013		30,000	29,213
Symantec Corp., Series B, 1.0%, 6/15/2013		50,000	55,687
			367,952
Materials 0.0%			
Newmont Mining Corp., Series A, 1.25%, 7/15/2014		17,000	**23,630**
Other Government Related (b) 0.2%			
Kreditanstalt fuer Wiederaufbau, 3.25%, 6/27/2013	EUR	100,000	**132,596**
Total Convertible Bonds (Cost $1,795,805)			**1,742,468**

	Principal Amount ($)(a)	Value ($)
Preferred Securities 0.8%		
Financials 0.7%		
Capital One Capital VI, 8.875%, 5/15/2040	330,000	342,504
USB Capital XIII Trust, 6.625%, 12/15/2039	145,000	147,314
		489,818
Materials 0.1%		
Hercules, Inc., 6.5%, 6/30/2029	95,000	**72,675**
Total Preferred Securities (Cost $527,737)		**562,493**

	Units	Value ($)
Other Investments 0.0%		
Consumer Discretionary		
AOT Bedding Super Holdings LLC* (Cost $4,000)	4	**4,000**

	Shares	Value ($)
Common Stocks 0.1%		
Consumer Discretionary 0.0%		
Buffets Restaurants Holdings, Inc.*	2,318	5,795
Postmedia Network Canada Corp.*	1,248	11,087
Trump Entertainment Resorts, Inc.*	6	109
Vertis Holdings, Inc.*	63	35
		17,026
Industrials 0.0%		
Congoleum Corp.*	2,500	**0**
Materials 0.1%		
GEO Specialty Chemicals, Inc.*	2,058	0
Wolverine Tube, Inc.*	778	19,450
		19,450
Total Common Stocks (Cost $54,342)		**36,476**
Warrants 0.0%		
Consumer Discretionary 0.0%		
Reader's Digest Association, Inc., Expiration Date 2/19/2014*	159	**27**
Materials 0.0%		
Hercules Trust II, Expiration Date 3/31/2029*	85	**700**
Total Warrants (Cost $17,432)		**727**

	Contracts	Value ($)
Put Options Purchased 0.0%		
90 Day Eurodollar Future, Expiration Date 3/19/2012, Strike Price $99.25 (Cost $22,543)	100	**15,000**

	Shares	Value ($)
Cash Equivalents 7.9%		
Central Cash Management Fund, 0.07% (e) (Cost $5,477,644)	5,477,644	**5,477,644**

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

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $67,241,670)†	97.5	**67,408,844**
Other Assets and Liabilities, Net	2.5	**1,693,922**
Net Assets	100.0	**69,102,766**

The following table represents bonds and senior loans that are in default:

Securities	Coupon	Maturity Date	Principal Amount ($)		Acquisition Cost ($)	Value ($)
Fontainebleau Las Vegas Holdings LLC*	11.0%	6/15/2015	65,000	USD	65,225	41
Hellas Telecommunications Finance SCA*	8.985%	7/15/2015	109,187	EUR	32,169	85
Tribune Co.*	LIBOR plus 3.0%	6/4/2014	88,875	USD	88,819	52,214
					186,213	**52,340**

* Non-income producing security. In the case of a bond or senior loan, generally denotes that the issuer has defaulted on the payment of principal or interest or has filed for bankruptcy.

** Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2011.

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

† The cost for federal income tax purposes was $67,415,417. At December 31, 2011, net unrealized depreciation for all securities based on tax cost was $6,573. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,040,736 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,047,309.

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

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

(c) At December 31, 2011, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(d) Taxable issue.

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

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

FDIC: Federal Deposit Insurance Corp.

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.

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

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

REIT: Real Estate Investment Trust

At December 31, 2011, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year Australian Treasury Bond	AUD	3/15/2012	2	243,212	1,868
10 Year Canadian Government Bond	CAD	3/21/2012	16	2,102,027	3,688
Federal Republic of Germany Euro-Bund	EUR	3/8/2012	8	1,439,621	47,994
United Kingdom Long Gilt Bond	GBP	3/28/2012	4	726,493	16,765
Total unrealized appreciation					**70,315**

At December 31, 2011, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year Canadian Government Bond	CAD	3/21/2012	9	1,182,390	(16,264)
10 Year U.S. Treasury Note	USD	3/21/2012	40	5,245,000	(22,899)
2 Year U.S. Treasury Note	USD	3/30/2012	16	3,528,750	(2,027)
Federal Republic of Germany Euro-Schatz	EUR	3/8/2012	3	428,423	(1,229)
Ultra Long U.S. Treasury Bond	USD	3/21/2012	2	320,375	(379)
Total unrealized depreciation					**(42,798)**

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

At December 31, 2011, open written option contracts were as follows:

Written Options	Contract Amount	Expiration Date	Strike Price ($)	Value ($) (f)
Put Options				
90 Day Eurodollar Future (Premium received $12,458)	100	3/19/2012	99.0	8,125

(f) Unrealized appreciation at December 31, 2011 was $4,333.

At December 31, 2011, open credit default swap contracts sold were as follows:

Effective/ Expiration Date	Notional Amount ($) (h)	Fixed Cash Flows Received	Underlying Debt Obligation/Quality Rating (g)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
9/21/2009 12/20/2014	290,000[1]	1.0%	Berkshire Hathaway Finance Corp., 4.625%, 10/15/2013, AA+	(3,357)	(7,340)	3,983
6/21/2010 9/20/2013	70,000[2]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	3,430	858	2,572
6/21/2010 9/20/2013	90,000[3]	5.0%	Ford Motor Co., 6.5%, 8/1/2018, BB+	4,830	(1,604)	6,434
12/20/2010 3/20/2016	290,000[4]	1.0%	Freeport-McMoRan Copper & Gold, Inc., 8.375%, 4/1/2017, BBB	(7,979)	(114)	(7,865)
3/21/2011 6/20/2016	120,000[1]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	(1,748)	4,015	(5,763)
Total net unrealized depreciation						**(639)**

(g) The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings and are unaudited.

(h) The maximum potential amount of future undiscounted payments that the Fund could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Fund for the same referenced debt obligation.

At December 31, 2011, open interest rate swap contracts were as follows:

Effective/ Expiration Date	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
11/28/2012 11/28/2013	2,300,000[4]	Floating — LIBOR	Fixed — 1.22%	3,251	—	3,251
11/26/2012 11/26/2013	1,100,000[1]	Fixed — 2.375%	Floating — LIBOR	387	—	387
4/13/2012 4/13/2016	1,500,000[5]	Floating — LIBOR	Fixed — 1.22%	5,845	—	5,845
10/1/2012 10/1/2021	2,000,000[6]	Fixed — 2.375%	Floating — LIBOR	(40,593)	557	(41,150)
10/28/2010 10/28/2025	140,000[4]	Floating — LIBOR	Floating — 4.274%††	2,733	—	2,733
11/1/2010 11/1/2025	240,000[7]	Floating — LIBOR	Floating — 4.429%††	4,600	—	4,600
11/12/2010 11/12/2025	280,000[4]	Floating — LIBOR	Floating — 4.452%††	4,876	—	4,876
11/15/2010 11/15/2025	280,000[7]	Floating — LIBOR	Floating — 4.457%††	6,828	—	6,828
11/16/2010 11/16/2025	140,000[4]	Floating — LIBOR	Floating — 4.46%††	2,667	—	2,667
11/19/2010 11/19/2025	140,000[7]	Floating — LIBOR	Floating — 4.479%††	3,922	—	3,922
11/23/2010 11/23/2025	70,000[4]	Floating — LIBOR	Floating — 4.495%††	1,338	—	1,338
10/1/2012 10/1/2042	1,200,000[6]	Floating — LIBOR	Fixed — 2.96%	71,001	—	71,001
Total net unrealized appreciation						**66,298**

†† These interest rate swaps are shown at their current rate as of December 31, 2011.

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

At December 31, 2011, open total return swap contracts were as follows:

Effective/ Expiration Date	Notional Amount ($)	Fixed Cash Flows Paid	Reference Entity	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
4/26/2011 4/26/2012	1,100,000[5]	0.07%	BNP Paribas BPSTAR Enhanced Momentum Index	737	—	737
6/9/2010 6/1/2012	2,800,000[2]	0.45%	Citi Global Interest Rate Strategy Index	(9,073)	—	(9,073)
Total net unrealized depreciation						**(8,336)**

Counterparties:

1 JPMorgan Chase Securities, Inc.

2 Citigroup, Inc.

3 Bank of America, N.A.

4 Morgan Stanley

5 BNP Paribas

6 The Goldman Sachs & Co.

7 Barclays Bank PLC

LIBOR: London Interbank Offered Rate

At December 31, 2011, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
GBP	1,850,000	USD	2,959,347	1/17/2012	85,607	UBS AG
EUR	2,000,000	USD	2,764,074	1/17/2012	169,594	UBS AG
USD	1,959,357	CAD	2,000,000	1/17/2012	6,881	BNP Paribas
USD	4,642,683	GBP	3,000,000	1/17/2012	17,435	Nomura International PLC
GBP	2,150,000	USD	3,380,267	1/17/2012	40,515	Morgan Stanley
GBP	1,075,000	USD	1,688,995	1/17/2012	19,119	Bank of America
USD	605,113	AUD	610,000	1/20/2012	17,240	UBS AG
USD	511,193	NOK	3,060,000	1/20/2012	83	UBS AG
USD	577,406	SEK	3,990,000	1/20/2012	1,729	UBS AG
USD	46,259	NZD	60,000	1/20/2012	375	UBS AG
USD	60,958	JPY	4,760,000	1/20/2012	904	UBS AG
NOK	3,230,000	USD	540,907	1/20/2012	1,227	UBS AG
EUR	680,000	USD	884,104	1/20/2012	3,896	UBS AG
USD	84,513	CHF	80,000	1/20/2012	688	UBS AG
EUR	208,000	USD	272,227	1/25/2012	2,978	JPMorgan Chase Securities, Inc.
JPY	80,000,000	USD	1,053,138	1/27/2012	13,703	BNP Paribas
USD	1,030,243	JPY	80,000,000	1/27/2012	9,193	Morgan Stanley
USD	637,647	CHF	600,000	2/17/2012	2,669	Morgan Stanley
USD	1,542,029	GBP	1,000,000	2/17/2012	11,056	BNP Paribas
EUR	750,000	USD	1,008,282	2/17/2012	35,237	UBS AG
CHF	600,000	USD	660,825	2/17/2012	20,509	Morgan Stanley
GBP	1,000,000	USD	1,566,489	2/17/2012	13,404	Nomura International PLC
USD	641,700	JPY	50,000,000	2/17/2012	8,056	BNP Paribas
EUR	260,000	USD	350,737	2/17/2012	13,379	State Street Bank & Trust Co.
Total unrealized appreciation					**495,477**	

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	1,303,270	EUR	1,000,000	1/17/2012	(6,030)	Morgan Stanley
CAD	2,000,000	USD	1,959,094	1/17/2012	(7,144)	Barclays Banl PLC
USD	3,233,814	GBP	2,075,000	1/17/2012	(10,566)	Morgan Stanley
USD	62,716	GBP	40,000	1/20/2012	(608)	UBS AG
SEK	2,450,000	USD	349,192	1/20/2012	(6,417)	UBS AG
GBP	230,000	USD	355,520	1/20/2012	(1,602)	UBS AG
JPY	26,530,000	USD	340,207	1/20/2012	(4,580)	UBS AG
NZD	390,000	USD	292,621	1/20/2012	(10,500)	UBS AG
AUD	170,000	USD	171,569	1/20/2012	(1,873)	UBS AG
CAD	450,000	USD	435,567	1/20/2012	(5,946)	UBS AG
USD	1,000,970	EUR	750,000	2/7/2012	(27,924)	Morgan Stanley
Total unrealized depreciation					**(83,190)**	

Currency Abbreviations

ARS	Argentine Peso	EUR	Euro	NOK	Norwegian Krone
AUD	Australian Dollar	GBP	British Pound	NZD	New Zealand Dollar
BRL	Brazilian Real	HKD	Hong Kong Dollar	SEK	Swedish Krona
CAD	Canadian Dollar	JPY	Japanese Yen	USD	United States Dollar
CHF	Swiss Franc				

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

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2011 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (i)				
Corporate Bonds	$ —	$ 44,320,497	$ 259,203	$ 44,579,700
Asset-Backed	—	400,045	—	400,045
Commercial Mortgage-Backed Securities	—	1,613,771	—	1,613,771
Collateralized Mortgage Obligations	—	2,895,181	—	2,895,181
Government & Agency Obligations	—	7,456,951	—	7,456,951
Loan Participations and Assignments	—	1,696,234	—	1,696,234
Municipal Bonds and Notes	—	928,154	—	928,154
Convertible Bonds	—	1,742,468	—	1,742,468
Preferred Securities	—	562,493	—	562,493
Common Stocks (i)	16,882	—	19,594	36,476
Warrants (i)	—	—	727	727
Other Investments	—	—	4,000	4,000
Short-Term Investments	5,477,644	—	—	5,477,644
Derivatives (j)	85,315	616,651	—	701,966
Total	**$ 5,579,841**	**$ 62,232,445**	**$ 283,524**	**$ 68,095,810**
Liabilities				
Derivatives (j)	$ (50,923)	$ (147,041)	$ —	$ (197,964)
Total	**$ (50,923)**	**$ (147,041)**	**$ —**	**$ (197,964)**

There have been no transfers between Level 1 and Level 2 fair value measurements during the year ended December 31, 2011.

(i) See Investment Portfolio for additional detailed categorizations.

(j) Derivatives include value of options purchased and written options, at value, and unrealized appreciation (depreciation) on futures contracts, credit default swap contracts, interest rate swap contracts, total return swap contracts and forward foreign currency exchange contracts.

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

Level 3 Reconciliation

The following is a reconciliation of the Fund's Level 3 investments for which significant unobservable inputs were used in determining value:

	Corporate Bonds	Government & Agency Obligations	Common Stocks	Warrants	Call Options Purchased	Other Investments	Total	Written Options
Balance as of December 31, 2010	$ 543,619	$ 284,461	$ 1,858	$ 972	$ 467	$ 4,000	**$ 835,377**	$ (35,163)
Total realized gain (loss)	(282,049)	—	(16)	—	(53,970)	—	**(336,035)**	(9,135)
Change in unrealized appreciation (depreciation)	283,660	5,539	(2,270)	(245)	53,993	0	**340,677**	4,423
Amortization premium/ discount	5,303	—	—	—	—	—	**5,303**	—
Purchases	296,067	290,000	20,022	—	—	—	**606,089**	70,615
(Sales)	(587,397)	(580,000)	—	—	(490)	—	**(1,167,887)**	(30,740)
Transfers into Level 3	—	—	—	—	—	—	**—**	—
Transfers (out) of Level 3	—	—	—	—	—	—	**—**	—
Balance as of December 31, 2011	**$ 259,203**	**$ —**	**$ 19,594**	**$ 727**	**$ —**	**$ 4,000**	**$ 283,524**	**$ —**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2011	**$ (533)**	**$ —**	**$ (2,270)**	**$ (245)**	**$ —**	**$ 0**	**$ (3,048)**	**$ —**

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

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

Statement of Assets and Liabilities

as of December 31, 2011

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $61,764,026)	$	61,931,200
Investment in Central Cash Management Fund (cost $5,477,644)		5,477,644
Total investments in securities, at value (cost $67,241,670)		67,408,844
Cash		42,838
Foreign currency, at value (cost $258,866)		255,407
Deposit with broker for futures contracts		176,286
Receivable for investments sold		146,470
Receivable for Fund shares sold		2,520
Interest receivable		951,868
Receivable for variation margin on futures contracts		6,912
Unrealized appreciation on swap contracts		121,174
Unrealized appreciation on forward foreign currency exchange contracts		495,477
Upfront payments paid on swap contracts		5,430
Foreign taxes recoverable		1,466
Other assets		1,455
Total assets		69,616,147
Liabilities		
Payable for Fund shares redeemed		248,799
Options written, at value (premium received $12,458)		8,125
Unrealized depreciation on swap contracts		63,851
Unrealized depreciation on forward foreign currency exchange contracts		83,190
Upfront payments received on swap contracts		9,058
Accrued management fee		12,457
Other accrued expenses and payables		87,901
Total liabilities		513,381
Net assets, at value	**$**	**69,102,766**
Net Assets Consist of		
Undistributed net investment income	$	3,867,140
Net unrealized appreciation (depreciation) on:		
Investments		167,174
Swap contracts		57,323
Futures		27,517
Foreign currency		419,415
Written options		4,333
Accumulated net realized gain (loss)		(26,324)
Paid-in-capital		64,586,188
Net assets, at value	**$**	**69,102,766**
Class A		
Net Asset Value, offering and redemption price per share ($69,102,766 ÷ 5,808,640 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.90**

Statement of Operations

for the year ended December 31, 2011

Investment Income		
Income:		
Interest	$	4,435,851
Dividends		5,806
Income distributions — Central Cash Management Fund		7,175
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		841
Total income		4,449,673
Expenses:		
Management fee		396,816
Administration fee		72,148
Services to shareholders		994
Custodian fee		69,972
Audit and tax fees		63,818
Legal fees		18,512
Reports to shareholders		34,582
Trustees' fees and expenses		3,416
Other		50,457
Total expenses before expense reductions		710,715
Expense reductions		(142,266)
Total expenses after expense reductions		568,449
Net investment income (loss)		**3,881,224**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		656,956
Swap contracts		(202,808)
Futures		1,060,372
Written options		(7,623)
Foreign currency		(728,824)
Payments by affiliates (see Note I)		142,890
		920,963
Change in net unrealized appreciation (depreciation) on:		
Investments		(1,999,272)
Swap contracts		312,057
Futures		122,817
Written options		8,756
Foreign currency		410,491
		(1,145,151)
Net gain (loss)		**(224,188)**
Net increase (decrease) in net assets resulting from operations	**$**	**3,657,036**

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, 2011	2010
Operations:		
Net investment income	$ 3,881,224	$ 4,195,261
Net realized gain (loss)	920,963	2,382,740
Change in net unrealized appreciation (depreciation)	(1,145,151)	522,516
Net increase (decrease) in net assets resulting from operations	3,657,036	7,100,517
Distributions to shareholders from:		
Net investment income:		
Class A	(4,074,552)	(4,806,010)
Fund share transactions:		
Class A		
Proceeds from shares sold	6,939,450	11,245,997
Reinvestment of distributions	4,074,552	4,806,010
Payments for shares redeemed	(17,200,574)	(16,514,815)
Net increase (decrease) in net assets from Class A share transactions	(6,186,572)	(462,808)
Increase (decrease) in net assets	(6,604,088)	1,831,699
Net assets at beginning of period	75,706,854	73,875,155
Net assets at end of period (including undistributed net investment income of $3,867,140 and $4,058,018, respectively)	**$ 69,102,766**	**$ 75,706,854**

Other Information		
Class A		
Shares outstanding at beginning of period	6,329,747	6,362,456
Shares sold	592,646	957,272
Shares issued to shareholders in reinvestment of distributions	348,849	420,473
Shares redeemed	(1,462,602)	(1,410,454)
Net increase (decrease) in Class A shares	(521,107)	(32,709)
Shares outstanding at end of period	**5,808,640**	**6,329,747**

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

Financial Highlights

Class A	Years Ended December 31, 2011	2010	2009	2008	2007
Selected Per Share Data					
Net asset value, beginning of period	**$11.96**	**$11.61**	**$10.03**	**$11.70**	**$11.80**
Income (loss) from investment operations:					
Net investment income[a]	.63	.66	.63	.55	.63
Net realized and unrealized gain (loss)	(.01)	.47	1.50	(1.38)	(.01)
Total from investment operations	.62	1.13	2.13	(.83)	.62
Less distributions from:					
Net investment income	(.68)	(.78)	(.55)	(.69)	(.72)
Net realized gains	—	—	—	(.15)	—
Total distributions	(.68)	(.78)	(.55)	(.84)	(.72)
Net asset value, end of period	**$11.90**	**$11.96**	**$11.61**	**$10.03**	**$11.70**
Total Return (%)[b]	5.31	10.05	22.73	(7.75)	5.43
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	69	76	74	73	100
Ratio of expenses before expense reductions (%)	.99	.95	.86	.89	.84
Ratio of expenses after expense reductions (%)	.79	.86	.80	.87	.83
Ratio of net investment income (%)	5.38	5.62	5.96	5.06	5.50
Portfolio turnover rate (%)	144	167	370	234	147

a Based on average shares outstanding during the period.

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

Notes to Financial Statements

A. Organization and Significant Accounting Policies

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

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading.

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

Debt securities and senior loans are valued at prices supplied by independent pricing services approved by the Fund's Board. If the pricing services are unable to provide valuations, securities are valued at the most recent bid quotation or evaluated price, as applicable, obtained from one or more broker-dealers. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. These securities are generally categorized as Level 2.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade and are categorized as Level 1 securities. 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, which approximates value, and are categorized as Level 2. Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Futures contracts are generally valued at the settlement prices established each day on the exchange on which they are traded and are categorized as Level 1.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and are categorized as Level 2.

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

Exchange-traded options are valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked prices or at the most recent asked price (bid for purchased options) if no bid or asked price are available. Exchange-traded options are categorized as Level 1. Over-the-counter written or purchased options are valued based upon a price provided by the broker-dealer with which the option was traded and are generally categorized as Level 3.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Board and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors used in determining value may include, but are not limited to, the type of the security; the size of the holding; the initial cost of the security; the existence of any contractual restrictions on the security's disposition; the price and extent of public trading in similar securities of the issuer or of comparable companies; quotations or evaluated prices from broker-dealers and/or pricing services; information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); an analysis of the company's or issuer's financial statements; an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold and with respect to debt securities; the maturity, coupon, creditworthiness, currency denomination and the movement of the market in which the security is normally traded. The value determined under these procedures may differ from published values for the same securities.

Disclosure about the classification of fair value measurements is included in a table following the Fund's Investment Portfolio.

New Accounting Pronouncement. In May 2011, Accounting Standards Update 2011-04 (ASU 2011-04), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and is effective during interim and annual periods beginning after December 15, 2011. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement. The amendments are the result of the work by the Financial Accounting Standards Board and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. Management is currently evaluating the application of ASU 2011-04 and its impact, if any, on the Fund's financial statements.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Securities Lending. The Fund lends securities to certain financial institutions. The Fund 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 Fund requires the borrowers of the securities to maintain collateral with the Fund consisting of either cash or liquid, unencumbered assets having a value at least equal to the value of the securities loaned. When the collateral falls below specified amounts, the lending agent will use its best effort to obtain additional collateral on the next business day to meet required amounts under the security lending agreement. The Fund 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 Fund receives compensation for lending its securities either in the form of fees or by earning interest on invested cash collateral net of borrower rebates and fees paid to a lending agent. Either the Fund or the borrower may terminate the loan. 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 Fund is also subject to all investment risks associated with the reinvestment of any cash collateral received, including, but not limited to, interest rate, credit and liquidity risk associated with such investments. The Fund had no securities on loan at December 31, 2011.

Loan Participations and Assignments. Loan Participations and Assignments are portions of loans originated by banks and sold in pieces to investors. These fixed and floating rate loans ("Loans") in which the Fund invests, are arranged between the borrower and one or more financial institutions ("Lenders"). These Loans may take the form of Senior Loans, which are corporate obligations often issued in connection with recapitalizations, acquisitions, leveraged buy-outs and refinancings, and Sovereign Loans, which are debt instruments between a foreign sovereign entity and one or more financial institutions. The Fund invests in such Loans in the form of participations in Loans ("Participations") or assignments of all or a portion of Loans from third parties ("Assignments"). Participations typically result in the Fund having a contractual relationship only with the Lender, not with the borrower. The Fund has the right to receive payments of principal, interest and any fees to which it is entitled from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Fund generally has no right to enforce compliance by the borrower with the terms of the loan agreement relating to the Loan, or any rights of set-off against the borrower, and the Fund will not benefit directly from any collateral supporting the Loan in which it has purchased the Participation. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. Assignments typically result in the Fund having a direct contractual relationship with the borrower, and the Fund may enforce compliance by the borrower with the terms of the loan agreement. Senior loans held by the Fund generally are in the form of Assignments but the Fund may also invest in Participations. All Loan Participations and Assignments involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

When-Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into this type of transaction, it is required to segregate cash or other liquid assets at least equal to the amount of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery transactions from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic, or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies and to distribute all of its taxable income to its shareholders.

Additionally, based on the Fund's understanding of the tax rules and rates related to income, gains and transactions for the foreign jurisdictions in which it invests, the Fund will provide for foreign taxes, and where appropriate, deferred foreign taxes.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses may be carried forward indefinitely, and their character is retained as short-term and/or long-term. Previously, net capital losses were carried forward for eight years and treated as short-term losses. As a transition rule, the Act requires that post-enactment net capital losses be used before pre-enactment net capital losses.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2011 and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2011, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 4,277,448
Undistributed long-term capital gains	$ 138,130
Unrealized appreciation (depreciation) on investments	$ (6,573)

In addition, the tax character of distributions paid by the Fund is summarized as follows:

	Years Ended December 31, 2011	2010
Distributions from ordinary income*	$ 4,074,552	$ 4,806,010

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust.

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

Other. Investment transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Realized gains and losses from investment transactions are recorded on an identified cost basis and may include proceeds from litigation. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund, with the exception of securities in default of principal.

B. Derivative Instruments

Interest Rate Swap Contracts. For the year ended December 31, 2011, the Fund entered into interest rate swap transactions to gain exposure to different parts of the yield curve while managing overall duration and to enhance potential gains. The value of the Fund's underlying bond investments is subject to interest rate risk. As interest rates increase, the value of the Fund's fixed rate bonds may fall. The longer the duration of the Fund's securities, the more sensitive the Fund will be to interest rate changes. 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 Fund 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 Fund a variable rate payment, or the Fund agrees to receive from the counterparty a fixed rate payment in exchange for the counterparty agreeing to receive from the Fund a variable rate payment. In addition, both the Fund and counterparty may agree to exchange variable rate payments based on different indices. 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. In connection with these agreements, securities and or cash may be identified as collateral in accordance with the terms of the swap agreements to provide assets of value and recourse in the event of default. The maximum counterparty credit risk is the net present value of the cash flows to be received from or paid to the counterparty over the term of the interest rate swap contract, to the extent that this amount is beneficial to the Fund, in addition to any related collateral posted to the counterparty by the Fund. This risk may be partially reduced by a master netting arrangement between the Fund and the counterparty. The value of the swap is adjusted daily and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations.

A summary of the open interest rate swap contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from approximately $2,540,000 to $9,390,000.

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. For the year ended December 31, 2011, the Fund sold credit default swap contracts to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer, or to economically hedge the risk of default on Fund securities. As a seller in the credit default swap contract, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swap contracts in order to hedge against the risk of a credit event on debt securities, in which case the Fund 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 Fund with the occurrence of a credit event. When the Fund 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 Fund.

The value of the credit default swap is adjusted daily and the change in value, if any, is recorded daily as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Under the terms of the credit default swap contracts, the Fund 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 in 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 in the Statement of Operations.

A summary of the open credit default swap contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from approximately $740,000 to $2,370,000.

Total Return Swap Contracts. Total return swaps involve commitments to pay interest in exchange for a market-linked return based on a notional amount. For the year ended December 31, 2011, the Fund entered into total return swap transactions to enhance potential gain. 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 Fund 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. The value of the swap is adjusted daily and the change in value, if any, is recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. An upfront payment, if any, made by the Fund is recorded as an asset in the Statement of Assets and Liabilities. An upfront payment, if any, received by the Fund is recorded as a liability in the Statement of Assets and Liabilities. Payments received or made at the end of each measurement period are recorded as realized gain or loss in the Statement of Operations.

A summary of the open total return swap contracts as of December 31, 2011 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in total return swap contracts had a total notional amount generally indicative of a range from approximately $2,800,000 to $3,900,000.

Options. An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices and interest rate options, will require cash settlement by the Fund if the option is exercised. Interest rate options are comprised of multiple European style options that have periodic exercise dates within the terms of the contract. For the year ended December 31, 2011, the Fund entered into option contracts on interest rate futures and on interest rates in order to hedge portfolio assets against potential adverse interest rate movements.

If the Fund writes a covered call option, the Fund foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Fund writes a put option it accepts the risk of a decline in the value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

A summary of the open purchased option contracts as of December 31, 2011 is included in the Fund's Investment Portfolio. A summary of open written option contracts is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in written option contracts had a total value generally indicative of a range from $0 to approximately $35,000. For the year ended December 31, 2011, the investment in purchased option contracts had a total value generally indicative of a range from $0 to approximately $17,000.

Futures Contracts. A futures contract is an agreement between a buyer or seller and an established futures exchange or its clearinghouse in which the buyer or seller agrees to take or make a delivery of a specific amount of a financial instrument at a specified price on a specific date (settlement date). For the year ended December 31, 2011, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration. In addition, the Fund seeks to enhance returns by employing a global tactical asset allocation overlay strategy. The Fund enters into futures contracts on fixed-income securities, including on financial indices and security indices, as part of its global tactical asset allocation overlay strategy. For the year ended December 31, 2011, as part of this strategy, the Fund used futures contracts to attempt to take advantage of inefficiencies within the global equity and bond markets.

Upon entering into a futures contract, the Fund is required to deposit with a financial intermediary cash or securities ("initial margin") in an amount equal to a certain percentage of the face value indicated in the futures contract. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value and are recorded for financial reporting purposes as unrealized gains or losses by the Fund. Gains or losses are realized when the contract expires or is closed. Since all futures contracts are exchange-traded, counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default.

Certain risks may arise upon entering into futures contracts, including the risk that an illiquid market will limit the Fund's ability to close out a futures contract prior to the settlement date and the risk that the futures contract is not well correlated with the security, index or currency to which it relates. Risk of loss may exceed amounts recognized in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2011, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $4,511,000 to $32,102,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $10,173,000 to $21,385,000.

Forward Foreign Currency Exchange Contracts. A forward foreign currency exchange contract ("forward currency contract") is a commitment to purchase or sell a foreign currency at the settlement date at a negotiated rate. For the year ended December 31, 2011, the Fund entered into forward currency contracts in order to hedge against anticipated currency market changes and for non-hedging purposes to seek to enhance potential gains. In addition, the Fund seeks to enhance returns by employing a global tactical asset allocation overlay strategy. For the year ended December 31, 2011, as part of this strategy, the Fund used forward currency contracts to gain exposure to changes in the value of foreign currencies to attempt to take advantage of inefficiencies within the currency markets.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of December 31, 2011, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2011, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $8,867,000 to $21,033,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $4,238,000 to $17,940,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2011 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Purchased Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ 15,000	$ —	$ 108,185	$ 70,315	$ 193,500
Credit Contracts (b)	—	—	12,989	—	12,989
Foreign Exchange Contracts (c)	—	495,477	—	—	495,477
	$ 15,000	**$ 495,477**	**$ 121,174**	**$ 70,315**	**$ 701,966**

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

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

(b) Investments in securities, at value (includes purchased options) and unrealized appreciation on swap contracts

(c) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	**Written Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ (8,125)	$ —	$ (50,223)	$ (42,798)	$ (101,146)
Credit Contracts (b)	—	—	(13,628)	—	(13,628)
Foreign Exchange Contracts (c)	—	(83,190)	—	—	(83,190)
	$ (8,125)	**$ (83,190)**	**$ (63,851)**	**$ (42,798)**	**$ (197,964)**

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

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

(b) Options written, at value and unrealized depreciation on swap contracts

(c) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2011 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Purchased Options**	**Written Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Equity Contracts (a)	$ —	$ —	$ —	$ —	$ 1,031,735	$ 1,031,735
Interest Rate Contracts (a)	(85,382)	(7,623)	—	(226,624)	28,637	(290,992)
Credit Contracts (a)	—	—	—	23,816	—	23,816
Foreign Exchange Contracts (b)	—	—	(717,387)	—	—	(717,387)
	$ (85,382)	**$ (7,623)**	**$ (717,387)**	**$ (202,808)**	**$ 1,060,372**	**$ 47,172**

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

(a) Net realized gain (loss) from investments (includes purchased options), written options, swap contracts and futures, respectively

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

Change in Net Unrealized Appreciation (Depreciation)	Purchased Options	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Equity Contracts (a)	$ —	$ —	$ —	$ —	$ (31,298)	$ (31,298)
Interest Rate Contracts (a)	46,450	8,756	—	309,984	154,115	519,305
Credit Contracts (a)	—	—	—	2,073	—	2,073
Foreign Exchange Contracts (b)	—	—	415,618	—	—	415,618
	$ 46,450	**$ 8,756**	**$ 415,618**	**$ 312,057**	**$ 122,817**	**$ 905,698**

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

(a) Change in net unrealized appreciation (depreciation) on investments (includes purchased options), written options, swap contracts and futures, respectively

(b) Change in net unrealized appreciation (depreciation) on foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

C. Purchases and Sales of Securities

During the year ended December 31, 2011, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $83,472,753 and $93,604,530, respectively. Purchases and sales of U.S. Treasury obligations aggregated $11,445,314 and $12,489,902, respectively.

For the year ended December 31, 2011, transactions for written options on futures contracts and on interest rates were as follows:

	Contracts/ Contract Amount	Premium
Outstanding, beginning of period	29,000,000	$ 30,740
Options written	29,000,110	46,301
Options closed	(58,000,010)	(64,583)
Outstanding, end of period	**100**	**$ 12,458**

D. Related Parties

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

QS Investors, LLC ("QS Investors") serves as a subadvisor to the Fund. As a subadvisor to the Fund, QS Investors manages the portion of assets allocated to the Fund's global tactical asset allocation overlay strategy. QS Investors is paid by the Advisor for the services QS Investors provides to the Fund.

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

First $250 million	.550%
Next $750 million	.520%
Next $1.5 billion	.500%
Next $2.5 billion	.480%
Next $2.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.410%
Over $12.5 billion	.390%

For the period from January 1, 2011 through September 30, 2012, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.78%.

Accordingly, for the year ended December 31, 2011, the Advisor waived a portion of its management fee pursuant to the Investment Management Agreement aggregating $142,123, and the amount charged aggregated $254,693, which was equivalent to an annual effective rate of 0.35% of the Fund's average daily net assets.

Administration Fee. Pursuant to an Administrative Services Agreement, DIMA provides most administrative services to the Fund. For all services provided under the Administrative Services Agreement, the Fund pays DIMA an annual fee ("Administration Fee") of 0.10% of the Fund's average daily net assets, computed and accrued daily and payable monthly. For the year ended December 31, 2011, the Administration Fee was $72,148, of which $5,852 is unpaid.

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 Fund. 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 the Fund. For the year ended December 31, 2011, the amounts charged to the Fund by DISC aggregated $143, all of which was waived.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2011, the amount charged to the Fund by DIMA included in the Statement of Operations under "reports to shareholders" aggregated $20,760, of which $1,213 is unpaid.

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

Affiliated Cash Management Vehicle. The Fund may invest uninvested cash balances in Central Cash Management Fund, which is managed by the Advisor. The Fund indirectly bears its proportionate share of the expenses of Central Cash Management Fund. Central Cash Management Fund does not pay the Advisor an investment management fee. Central Cash Management Fund seeks a high level of current income consistent with liquidity and the preservation of capital.

E. Investing in High-Yield Securities

The Fund's performance could be hurt if a security declines in credit quality or goes into default, or if an issuer does not make timely payments of interest or principal. Because the issuers of high-yield debt securities or junk bonds (debt securities rated below the fourth-highest category) may be in uncertain financial health, the prices of their debt securities can be more vulnerable to bad economic news, or even the expectation of bad news, than investment-grade debt securities. Because the Fund may invest in securities not paying current interest or in securities already in default, these risks may be more pronounced.

F. Investing in Emerging Markets

Investing in emerging markets may involve special risks and considerations not typically associated with investing in developed markets. These risks include revaluation of currencies, high rates of inflation or deflation, repatriation restrictions on income and capital, and future adverse political, social and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls or delayed settlements, and may have prices that are more volatile or less easily assessed than those of comparable securities of issuers in developed markets.

G. Ownership of the Fund

At December 31, 2011, two Participating Insurance Companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 60% and 38%.

H. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $450 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if LIBOR exceeds the Federal Funds Rate the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2011.

I. Payment by Affiliates

During the year ended December 31, 2011, the Advisor agreed to reimburse the Fund $142,890 for losses incurred on trades executed incorrectly. The amount of the reimbursement is 0.20% of the Fund's average net assets.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of DWS Variable Series II and Shareholders of DWS Unconstrained Income VIP (formerly DWS Strategic Income VIP):

We have audited the accompanying statement of assets and liabilities of DWS Unconstrained Income VIP (the "Fund") (formerly DWS Strategic Income VIP), one of the funds constituting the DWS Variable Series II (the "Trust"), including the investment portfolio, as of December 31, 2011, 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 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 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, 2011, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of DWS Unconstrained Income VIP (formerly DWS Strategic Income VIP) at December 31, 2011, 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

Boston, Massachusetts
February 15, 2012

Information About Your Fund's Expenses **(Unaudited)**

As an investor of the Fund, you incur two types of costs: ongoing expenses and transaction costs. Ongoing expenses include management fees and other Fund expenses. Examples of transaction costs include contract charges 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 Fund and to help you compare these expenses with the ongoing expenses of investing in other mutual funds. In the most recent six-month period, the Fund limited these expenses; had it not done so, expenses would have been higher. The example in the table is based on an investment of $1,000 invested at the beginning of the six-month period and held for the entire period (July 1, 2011 to December 31, 2011).

The tables illustrate your Fund's expenses in two ways:

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

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

Expenses and Value of a $1,000 Investment for the six months ended December 31, 2011

Actual Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,024.10
Expenses Paid per $1,000*	$ 4.03

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/11	$1,000.00
Ending Account Value 12/31/11	$1,021.22
Expenses Paid per $1,000*	$ 4.02

* Expenses are equal to the Fund'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 365.

Annualized Expense Ratio	**Class A**
DWS Variable Series II — DWS Unconstrained Income VIP	.79%

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

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

Tax Information

(Unaudited)

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $152,000 as capital gain dividends for its year ended December 31, 2011, of which 100% represents 15% rate gains.

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 contact your insurance provider.

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) 728-3337.

Investment Management Agreement Approval

The Board of Trustees approved the renewal of DWS Unconstrained Income VIP's (formerly DWS Strategic Income VIP) investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DWS") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DWS and QS Investors, LLC ("QS Investors") in September 2011.

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

- In September 2011, all of the Fund's Trustees were independent of DWS and its affiliates.
- The Trustees met frequently during the past year to discuss fund matters and dedicated a substantial amount of time to contract review matters. Over the course of several months, the Board's Contract Committee, in coordination with the Board's Fixed Income and Quant Oversight Committee, reviewed comprehensive materials received from DWS, 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 Independent Trustees regularly meet privately with their independent counsel to discuss contract review and other matters. In addition, the Independent 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 Fund's distribution agreement, administrative services agreement, transfer agency agreement and other material service agreements.
- Based on its evaluation of the information provided, the Contract Committee presented its findings and recommendations to the Board. The Board then reviewed the Contract Committee's findings and recommendations.

In connection with the contract review process, the Contract Committee and the Board considered the factors discussed below, among others. The Board also considered that DWS 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 DWS managed the Fund, and that the Agreement was approved by the Fund's shareholders. DWS 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 DWS's and QS Investors' 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, DWS and QS Investors provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DWS 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 DWS to attract and retain high-quality personnel, and the organizational depth and stability of DWS. The Board also requested and received information regarding DWS's oversight of Fund sub-advisors, including QS Investors. 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 into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to their benchmark or a peer universe compiled by an independent fund data service), and receives more frequent reporting and information from DWS regarding such funds, along with DWS'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, 2010, 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 the one-, three- and five-year periods ended December 31, 2010.

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 DWS and QS Investors 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 a 0.10% fee paid to DWS 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, 2010). With respect to the sub-advisory fee paid to QS Investors, the Board noted that the fee is paid by DWS 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, 2010, and analyzing Lipper expense universe Class A expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board considered the Fund's management fee rate as compared to fees charged by DWS 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 DWS helped to ensure that the Fund's total (net) operating expenses would remain competitive.

The information considered by the Board as part of its review of management fees included information regarding fees charged by DWS and its affiliates to similar institutional accounts and to similar funds offered primarily to European investors ("DWS Europe funds"), in each case as applicable. The Board observed that advisory fee rates for institutional accounts generally were lower than the management fees charged by similarly managed DWS U.S. mutual funds ("DWS Funds"), but also took note of the differences in services provided to DWS Funds as compared to institutional accounts. In the case of DWS Europe funds, the Board observed that fee rates for DWS Europe funds generally were higher than for similarly managed DWS Funds, but noted that differences in the types of services provided to DWS Funds relative to DWS Europe funds made it difficult to compare such fees.

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 DWS and QS Investors.

Profitability. The Board reviewed detailed information regarding revenues received by DWS under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DWS 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 DWS and its affiliates with respect to all fund services in totality and by fund. The Board and the independent fee consultant reviewed DWS'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 DWS 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), DWS and its affiliates' overall profitability with respect to the DWS fund complex (after taking into account distribution and other services provided to the funds by DWS and its affiliates) was lower than the overall profitability levels of many comparable firms for which such data was available. The Board did not consider the profitability of QS Investors with respect to the Fund. The Board noted that DWS pays QS Investors' fee out of its management fee, and its understanding that the Fund's sub-advisory fee schedule was the product of an arm's length negotiation with DWS.

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 DWS of such economies of scale as may exist in the management of the Fund at current asset levels.

Other Benefits to DWS and QS Investors and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DWS and QS Investors and their affiliates, including any fees received by DWS for administrative services provided to the Fund and any fees received by an affiliate of DWS for distribution services. The Board also considered benefits to DWS and QS Investors 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 DWS and QS Investors related to DWS Funds advertising and cross-selling opportunities among DWS 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 DWS to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of both DWS's chief compliance officer and the Fund's chief compliance officer; (ii) the large number of DWS compliance personnel; and (iii) the substantial commitment of resources by DWS and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DWS to the oversight of the investment sub-advisor's compliance program and compliance with the applicable fund policies and procedures.

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

September 26, 2011

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 2011, 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, 2008, 2009 and 2010.

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 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 109 mutual 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 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
President, Thomas H. Mack & Co., Inc.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund as of December 31, 2011. 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 Paul K. Freeman, Independent Chairman, DWS Funds, PO Box 101833, Denver, CO 80250-1833. 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	Other Directorships Held by Board Member
Paul K. Freeman (1950) Chairperson since 2009 Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Executive and Governing Council of the Independent Directors Council (Chairman of Education Committee); formerly: Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998)	110	—
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: Chairman of the Board, 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; Prisma Energy International	110	—
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Association of Public Television Stations; Public Radio International; Public Radio Exchange (PRX); The PBS Foundation; former Directorships: Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service	110	Lead Director, Becton Dickinson and Company[2] (medical technology company); Lead Director, Belo Corporation[2] (media company)
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: 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)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2007)
Keith R. Fox, CFA (1954) Board Member since 1996	Managing General Partner, Exeter Capital Partners (a series of private investment funds) (since 1986). Directorships: Progressive International Corporation (kitchen goods importer and distributor); BoxTop Media Inc. (advertising); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 2011)
Kenneth C. Froewiss (1945) Board Member since 2001	Adjunct Professor of Finance, NYU Stern School of Business (September 2009–present; Clinical Professor from 1997–September 2009); 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)	110	—

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	Other Directorships Held by Board Member
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); Co-Chair, U.S. Shadow Financial Regulatory Committee; Executive Director, Financial Economists Roundtable; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	110	Director, Japan Equity Fund, Inc. (since September 2007), Thai Capital Fund, Inc. (since September 2007), Singapore Fund, Inc. (since September 2007), Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	110	—
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 to present); Trustee, Washington College (2011 to present); formerly: Executive Vice President, The Glenmede Trust Company (investment trust and wealth management) (1983–2004); Board Member, Investor Education (charitable organization) (2004–2005); Trustee, Executive Committee, Philadelphia Chamber of Commerce (2001–2007); Trustee, Pro Publica (charitable organization) (2007–2010); Trustee, Thomas Jefferson Foundation (charitable organization) (1994 to 2011)	110	Director, CardioNet, Inc.[2] (health care) (2009–present); Director, Viasys Health Care[2] (January 2007–June 2007)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003)	110	Trustee, Sun Capital Advisers, Inc. (22 open-end mutual funds advised by Sun Capital Advisers, Inc.) (since 1998)
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets US Government Accountability Office (1996–1997); Partner, Fulbright & Jaworski, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation; 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)	110	—
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	113	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
W. Douglas Beck, CFA[6] (1967) President, 2011–present	Managing Director[3], Deutsche Asset Management (2006–present); President of DWS family of funds and Head of Product Management, U.S. for DWS Investments; formerly, Executive Director, Head of Product Management (2002–2006) and President (2005–2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998–2002)

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Principal Occupation(s) During Past 5 Years and Other Directorships Held
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director[3], Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998–2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994–1998)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director[3], Deutsche Asset Management; formerly, Assistant Secretary for DWS family of funds (1997–2010)
Rita Rubin[6] (1970) Assistant Secretary, 2009–present	Director[3] and Senior Counsel, Deutsche Asset Management (since October 2007); formerly, Vice President, Morgan Stanley Investment Management (2004–2007)
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2006); Vice President, The Manufacturers Life Insurance Company (U.S.A.) (1990–2006)
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management (since 2007); formerly, Vice President, State Street Corporation (2002–2007)
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director[3], Deutsche Asset Management
John Caruso[6] (1965) Anti-Money Laundering Compliance Officer, 2010–present	Managing Director[3], Deutsche Asset Management
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director[3], Deutsche Asset Management

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

3 Executive title, not a board directorship.

4 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.

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

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

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) 728-3337.

DWS Investments Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2UI-2 (R-025836-1 2/12)

Zurich American 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.

Scudder Destinations℠, a variable, fixed and market value-adjusted deferred annuity contract (policy form series L-8166 and L-1550), is issued by **Zurich American Life Insurance Company,** administrative office: 2000 Wade Hampton Blvd., Greenville, SC 29615-1064. Securities are distributed by **Synergy Investment Group, LLC,** 8320 University Executive Park Drive, Suite 112, Charlotte, NC 28262. May not be available in all states. The contract contains limitations and policy forms may vary by state.